

Algeria	6.00 Drs.	Israel	1.00 NIS	Norway	6.00 Nkr.
Argentina	17.5 P.	Italy	1200 Lit.	Oman	0.700 Bhd.
Australia	0.600 Aus.	Japan	1200 Yen	Peru	0.400 Sol.
Bulgaria	27 B.	Korea	100 Won	Qatar	0.500 Rial
Canada	0.510 Can.	Lebanon	1500 L.L.	Rep. of Ireland	0.700 P.
Ceylon	0.050 Rs.	Lithuania	100 Lt.	Saudi Arabia	0.000 R.
Denmark	7.00 Dkr.	Latvia	100 L.	Switzerland	0.000 Sfr.
Egypt	100 P.	Luxembourg	30 Lfr.	Taiwan	0.000 N.T.
Finland	0.000 Fmk.	Malta	25 Cent	Turkey	1.200 L.
France	5.00 F.	Mexico	20 Pes.	U.S.A.	0.000 D.
Germany	2.30 D.M.	Morocco	5.00 Dir.	U.S. (Mex. Exch.)	0.000 D.
Greece	0.000 Dr.	Netherlands	2.50 F.	Yugoslavia	0.000 D.
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U.S. Said to Weigh A 40% Rise in Aid To Central America

By Philip Taubman
New York Times Service

WASHINGTON — The Reagan administration is considering a 40-percent increase in military aid next year to its allies in Central America, according to senior administration officials and a report prepared for the White House.

The proposal for the increase was made in a classified report outlining U.S. options in the region. White House officials said no decisions had been made about increasing U.S. involvement and called the report a working paper. They said it formed the basis for high-level discussions but did not necessarily

contain the final options now under consideration. Other administration officials said the paper accurately reflected current thinking among senior officials.

The policy review occurs as Congress, which has resisted increases in U.S. involvement, is approaching final decisions on several Central American issues, including a supplemental military assistance request for El Salvador for the current fiscal year and a proposal to cut off covert aid to rebels in Nicaragua.

Administration officials said final decisions about how to strengthen U.S. policy will depend in part on the outcome of these votes. The working paper says some of the restrictions under consideration in Congress would be "crippling" to administration policy.

The classified report, which was prepared by an interagency task force for a National Security Council meeting on July 8, said, "The situation in Central America is nearing a critical point." It is still possible, the report said, "to accomplish U.S. objectives without the direct use of U.S. troops (although the credible threat of such use is needed to deter overt Soviet-Cuban intervention) provided that the U.S. takes timely and effective action."

Administration officials said a key recommendation of the task force — that the White House try to build a bipartisan base of support for its policies by appointing a special commission on Central America — had already been approved by President Ronald Reagan and would be announced this week, probably Monday.

The contemplated aid increases, which include a doubling of security assistance to Costa Rica, an 80-percent increase in aid to Guatemala, and increases of more than 30 percent in aid to El Salvador and Honduras, are part of a plan under review by Mr. Reagan that is intended to shore up a U.S. policy that officials increasingly believe is failing.

Other steps under consideration to produce "an invigorated strategy" for Central America, according to the report and senior officials, include the prepositioning of U.S. military equipment in Honduras for use in a crisis and the improvement of Honduran air and naval installations.

In addition, the report, which deals primarily with security issues, recommends proceeding with a Central Intelligence Agency plan to have Salvadoran troops operate in Honduran territory to attack Salvadoran guerrilla sanctuaries, and calls for the immediate development of a plan of action for upgrading the effectiveness of the Salvadoran military.

It also advocates the continuation of covert activities against the Nicaraguan government and the pursuit of a diplomatic strategy intended to isolate Nicaragua.

The task force paper, which paints a fairly bleak picture of Reagan administration accomplishments in Central America and is highly critical of the Salvadoran armed forces, was indirectly obtained by The New York Times from an administration official who is said to fear that the current policy is leading toward a major increase in U.S. military involvement in Central America.

The paper, stamped "secret," also brought into the open serious, long-standing policy differences between the State and Defense departments.

These include a fundamental debate over whether the United States risks a major foreign policy defeat if it pursues current policies in Central America without full support from Congress.

The Defense Department, according to the paper, contends that it would be better to pull out of Central America altogether rather than face a possible failure by trying to protect U.S. interests with halfhearted measures.

The policy review is taking place six months after the administration conducted a comprehensive examination of its Central America strategy.



FOR DISARMAMENT — In a protest in London's Hyde Park against nuclear arms, demonstrators passed inflatable globes labeled 'Fragile — Handle With Care' along a human chain that stretched between the Soviet and U.S. embassies. Page 2.

W. Germans Look With Foreboding to 'Hot Autumn'

By Henry Tanner
International Herald Tribune

BONN — The West Germans, officials and others, began closing up shop this weekend and heading for the mountains or the sea for a quiet summer before the "hot autumn" they all expect. As they leave, many of them are in a mood of foreboding.

It is now generally assumed that U.S.-Soviet negotiations in Geneva will not make sufficient progress and that the first new U.S. missiles will be deployed before the end of the year.

The stage is set for anti-missile, anti-war marches, sit-ins and other demonstrations. Almost inevitably, there will be some violence, even though leaders of the peace movement say they want the protests to be nonviolent. The question is whether the movement's leaders and the police can contain the violence.

A recent test in Krefeld, near Düsseldorf, turned out negatively as a minority of about 200 youths

bent on violence were able to disrupt a peaceful demonstration during a visit by Vice President George Bush of the United States.

Leaders of the Social Democrats, moreover, have decided that the party will be active in some of the demonstrations, according to Peter

NEWS ANALYSIS

Gloz, the party manager. Major labor unions, after some hesitation, made similar decisions. This has added a new dimension to the coming confrontation.

It will be the first time in a generation that the country's second largest party will carry its political action outside parliament. Politicians on both sides concede that this will be the "acid test" of future relations between government and opposition.

Foreign diplomats who after the March election predicted a "polarization of the country" now say their fears have deepened. The consensus that has existed on questions of national security is in the

process of being shattered, a scholar, Karl Kaiser, has warned.

The left wing of the Social Democratic Party has been gaining ground in the debate that followed the lost election.

Insiders predict that the party, at its congress in November, will either say no outright to the deployment of the U.S. missiles or will at least lead for a postponement pending further U.S.-Soviet negotiations.

"We need a new security concept," a party official said, reflecting this trend. "In three years' time, no young European will any longer accept the present concept of the balance of terror, and conscription armies, as a result, will become impossible."

Former Chancellor Helmut Schmidt, still the most popular politician in West Germany, will have a large influence on the party's decision. He was one of the sponsors of the NATO decision in 1979 to deploy the U.S. missiles.

But the left wing of the party hopes that in the fall he will say

that things have changed since then and that new approaches to the problem must be found. If Mr. Schmidt comes out openly against the new position that is being prepared by the party, the political damage would be enormous.

As the summer exodus starts, the most frequently used words in political conversations are "continuity" and "about-turn." In other words, how much has West Germany changed since the March election?

The Christian Democrats, who won, had promised to turn the country around after 13 "disastrous" years under their opponents. The Social Democrats used the term "about-turn" to charge that Mr. Kohl intended to reverse everything that had been progressive and liberal.

Four months later, a real about-turn has taken place only in the field of civil rights, where Interior Minister Friedrich Zimmermann, the country's most aggressive law-and-order advocate, appears to have been given a virtually free

hand by Chancellor Kohl, who himself likes to be seen in a more benign light.

A high government official who was asked whether Mr. Zimmermann was an embarrassment to the government said, "No, but he does go too far in his public statements sometimes."

Mr. Zimmermann is the sponsor of a new law under which a participant in a demonstration that turns violent is subject to criminal prosecution unless he or she can prove to have actively tried to prevent violence.

Mr. Zimmermann's critics accuse him of finding citizens "guilty until proven innocent," and they say that he has given new currency to the old German phrase that suspects who are "caught together must be hanged together."

Gerhard Stoltenberg, the finance minister, and Otto Lambach, the economics minister, are accused by the opposition of being "Thatcherites," but Mr. Kohl has also ap-

(Continued on Page 2, Col. 4)

Chad Bars Cease-Fire Until the Libyans Stop Supporting Insurgents

Reuters

NDJAMENA, Chad — The Chadian government will not agree to a cease-fire or talks to end the civil war until Libya stops its involvement in the fighting, a government official said Sunday.

The information minister, Soumaila Mahamat, said another precondition for a cessation of hostilities was that the Organization of African Unity's ad hoc committee on Chad be reactivated.

Mr. Soumaila was responding to appeals Saturday from the OAU's nine-nation working committee for a cease-fire, noninterference by foreign powers, and talks leading to national reconciliation.

The ad hoc committee, distinct from the working committee that met Saturday in Addis Ababa, was formed in 1977. It still exists but has not met during the latest fighting between President Hissene Habré's army and the rebel forces of Goukouni Oueddei.

The Chadian government insists that Libya controls the rebels and is responsible for their actions. It therefore refuses to negotiate separately with Mr. Goukouni, a former president of Chad.

"The rebels and Libya are structurally connected," Mr. Soumaila said, in what amounted to a restatement of the government's previous position.

Mr. Habré's government has consistently favored using the ad hoc committee, set up to examine the long-standing quarrel between Chad and Libya over frontiers and other issues, to mediate in the conflict.

Saturday's communiqué by the working committee urged Mengistu Haile Mariam, the OAU chairman, to use his good offices, including a possible revivification of the ad hoc committee, to end the hostilities.

The official Chadian press Saturday rejected any idea that factions existed in Chad that should discuss the conflict.

An official source of the foreign liaison bureau "warmly welcomed" the OAU statement, saying it "conveys the OAU's determination to deal with the Chadian problem within the African framework, especially considering that the Chadian problem is in reality an internal one which depicts the struggle for power between the different Chadian factions."

Prisoner Presented
The Chadian authorities presented to Western journalists Sunday a barefoot, frightened-looking black youth who said he was a Libyan Army corporal taken prisoner last week in northeastern Chad.

The Associated Press reported that the youth characterized himself as a reluctant recruit who was

sent last month to a rebel base in northern Chad.

The prisoner said he carried no Libyan identity card and that he had been instructed by superiors to deny his nationality if captured.

The prisoner said he was told their mission was to liberate Chad.

of being persecuted because of their beliefs.

The-In Seen to Madrid Talks
Bernard Gwertzman of The New York Times reported earlier from Washington.

Some State Department officials said the Soviet decision to allow the Chmykhalovs to emigrate was connected to the forthcoming conclusion of the East-West conference in Madrid.

Officials said last week that the Soviet authorities had assured Washington that some dissidents would be allowed to leave this year. They said Saturday that the Chmykhalovs were among those they had in mind.

Emigration permission for all the Pentecostals who lived in the embassy had been promised confidentially to the United States by Soviet officials, State Department officials said Saturday.

In Madrid, the United States agreed formally Friday to a compromise document on security and human rights to coincide with the Madrid review conference and possibly open the way for high-level Soviet-U.S. meetings.

Max M. Kampelman, the chief U.S. negotiator at the Madrid conference, appeared to refer to such gestures as the Russians' decision to release the Chmykhalovs when he explained why the United States had decided to accept a compromise document to conclude the three-year-old meeting.

He said the United States "noted and welcomed a few gestures from the Soviet Union and will continue to encourage further such steps."

Meanwhile, U.S. officials said that all that remained for discussion at the Madrid conference was a demand by Malta for a Mediterranean security meeting — a demand opposed by most participants in Madrid.

U.S. officials said that Secretary of State George P. Shultz was tentatively planning to attend the signing ceremonies in Madrid and would use the occasion to confer with Foreign Minister Andrei A. Gromyko of the Soviet Union.

"It is possible, because of August vacations in Europe, that the ceremony and the Shultz-Gromyko meeting might not occur until September. The two diplomats, officials said, could help prepare an eventual meeting between President Ronald Reagan and Yuri V. Andropov, the Soviet leader.

Mr. Reagan issued a statement shortly after Mr. Kampelman announced U.S. backing for the compromise document. He said the United States would sign the document without any illusions about "the nature of the Soviet Union."

(Continued on Page 2, Col. 5)



STRAUSS SUPPORT SLIPS — Frazz Josef Strauss was re-elected leader of West Germany's Christian Social Union on Saturday at the party's congress in Munich. But Mr. Strauss received just 662 of the 949 delegates' votes, 200 fewer than in 1981 and the lowest vote for his re-election in his 22 years as party leader.

Socialist International Leaders Push Managua to Liberalize, Sources Say

By Juan de Onis

RIO DE JANEIRO — Leaders of the Socialist International have sent what one Latin American political source said was an ultimatum to Nicaragua's Sandinist leaders to move promptly to establish pluralist democracy or face a loss of support from the group.

A letter containing four demands that would soften the Marxist orientation of the Managua regime was sent to the Sandinist commanders after a meeting last week in Madrid attended by Prime Minister Felipe González of Spain; Willy Brandt, the former West German chancellor; Carlos Andrés Pérez, former president of Venezuela; and Daniel Oduber, former president of Costa Rica.

The Socialist International provided arms and money, as well as its political influence, to support the Sandinist uprising that toppled the dictatorship of Anastasio Somoza in 1979.

Sources familiar with the outcome of the Madrid meeting said the Socialist International had indicated that it was prepared to withdraw its support from the Sandinist regime unless the original goals of the revolution, which included the establishment of political democracy, were implemented promptly.

The sources said the Madrid decision reflected concern over grow-

ing evidence of U.S. military support for anti-Sandinist guerrillas operating out of Honduras. Those attending the meeting reportedly believe there is imminent danger of an open military conflict that would have destabilizing effects throughout the region.

The Socialist International strongly supports the efforts of the so-called Contadora Group, which comprises Mexico, Venezuela, Colombia and Panama, to help contain conflict in Central America by working out a regional peace plan.

The letter sent to the Sandinist regime indicates that the Socialist International leaders believe the Nicaraguan leadership is jeopardizing the international support it has outside the Communist world by delaying a democratic election.

The sources said the letter called for four immediate moves by the Sandinist leadership:

- An announcement that general elections would be held next year, rather than the 1985 date that Managua has talked of.

- Appointment of a constitutional commission, with representation from all political sectors, to draft a constitution that would provide guarantees for a pluralist political system based on free elections.

- Prematuration of an electoral law that would provide guarantees of the existence of a wide range of parties, some of which are now outlawed.

- Immediate restoration of freedom of the press, which has been severely curtailed.

A copy of the letter reportedly was sent to President Fidel Castro. Cuba has provided military equipment and advisers to the Sandinists, as well as thousands of doctors and teachers.

The letter makes no mention of Nicaraguan support for the leftist guerrillas trying to overthrow the U.S.-backed government in El Salvador.

The Socialist International favors an opening of negotiations between the political arm of the Salvadoran guerrilla movement, the Revolutionary Democratic Front, and the government of President Alvaro Magaña, on the condition that a cease-fire be declared and supervised elections held.

The Salvadoran government and the Reagan administration are believed to want to improve Salvadoran military control over key areas of the country before entering into any talks.

Some members of the Reagan administration are said to hope that U.S.-backed Nicaraguan guerrillas will trigger a popular uprising against the Sandinist regime, neutralizing Cuban-backed military forces in Central America and thus preventing the Salvadoran guerrillas from negotiating from a position of strength.



Lucy Langley-Williams, 60, who suffered three broken ribs in a helicopter crash, was brought ashore from a lifeboat Saturday at St. Mary's Island.

20 Killed Off Scilly Isles In Crash of a Helicopter

Reuters

PENZANCE, England — Twenty persons, including eight children, were killed Saturday in a helicopter crash near the Scilly Isles, off the southwest coast of England, officials said Sunday.

The cause of the crash was still unknown, they said. Six persons, including two children and the two pilots, survived. However, two entire families were reported killed, as well as a prominent orthopedic surgeon, Dr. David Fuller, 42.

The crash involved a British Airways Sikorsky S-61 on a shuttle flight from this seaside resort to the Scilly Isles group that begin about 25 miles (40 kilometers) off Land's End. The crash occurred about a mile from the islands and the helicopter sank in 200 feet (60 meters) of water.

Divers were reported ready to descend to the wreckage. The managing director of British Airways helicopters, Michael Ginn, said Sunday night: "It has not been possible to determine the cause."

Another aviation expert, Captain Eric Brown, said that it was possible that the crash had been caused by seabirds. Several found dead near the site of the crash were taken ashore for examination. Dr. Adrian Davis, an island physician, said the survivors told him that the two pilots, Captain Neil Charlton and Captain Dominic Lawlor, had helped to keep the others afloat for about an hour.

It was the state-run airline's first loss in its island run since the service started in 1964.

Pravda Calls U.S. Stand On Missiles One-Sided, Presses a Soviet Plan

By Serge Schmemmann

New York Times Service
MOSCOW — The Soviet Union has charged that recent U.S. proposals at the strategic arms talks in Geneva were one-sided efforts to gain military advantage, and Moscow pressed its own plan for an overall limit on all types of warheads.

An editorial in Pravda, carried Friday by Tass, criticized in detail the proposals set forth last month by President Ronald Reagan but offered no details of the Soviet plan. Although reports from Washington said the Russians had made some new proposals at the Geneva talks, Western diplomats said the Pravda editorial did not appear to represent any movement from previously publicized Soviet positions.

Pravda said that Moscow favored a "comprehensive approach," placing an overall limit on warheads however they might be deployed. "All nuclear warheads would be equally taken into account within the framework of the agreed-upon ceiling," it said.

U.S. Shifting Priorities at Federal Labs

By John Wilke

Washington Post Service
WASHINGTON — The Reagan administration plans to curtail research on alternative energy sources and expand efforts to develop new weapons at several of the nation's federal laboratories, according to the White House science office.

The move is part of the administration's effort to redefine the role of the labs to make them more responsive to national needs and more in tune with administration priorities. Dr. James G. Ling, executive director of the president's Office of Science and Technology Policy, said Friday. The labs have an annual budget exceeding \$15 billion.

In a one-year study of the problems and potential of the government's research facilities, a presidential panel found that many of the 755 U.S. labs suffered "serious deficiencies" that compromised the quality of their research and their cost-effectiveness. The panel's report, released Friday, recommended greatly expanding access to the labs by private industry, universities and the military.

The panel was chaired by David Packard of the Hewlett-Packard Co. It included Dr. Edward Teller, an advocate of stepped-up nuclear weapons development, Dr. Albert Wheeler of Hughes Aircraft Co., and physicist from Yale University, the Massachusetts Institute of Technology and the University of Illinois.

Although the panel did not recommend closing specific labs, the report said funding at individual facilities should be allowed to increase or decrease, "to zero if necessary," to meet national needs.

"This isn't a budget-cutting exercise, it's an effort to get a better return on our investment," Dr. Ling said. He said many of the labs had had management problems and an uncertain sense of mission as successive administrations set new research priorities.

For example, he said, some of the labs traditionally associated with weapons work, which began doing research during the Carter administration on alternative energy sources, would be steered back to their original mission.

The panel's report concentrated on laboratories operated by the six U.S. agencies with the greatest share of research funding: the departments of Defense, Commerce, Agriculture, Energy, and Health and Human Services, and the National Aeronautics and Space Administration.

Among the panel's recommendations are the following:
 • Raising federal procurement requirements to encourage more cooperation with private industry.
 • Legislative changes to free the labs from the constraints of the Civil Service system. The panel found that almost all of the labs, both government-operated and contractor-operated, "suffered serious disadvantages in their inability to attract, retain and motivate scientific and technical personnel" because of the Civil Service system.

• Multiyear funding so that programs and staffing for the labs can be properly planned.
 • External oversight by a committee on which industry and university interests would be well-represented.

• Appointing facility directors for specific lengths of time and holding them "accountable for the quality, relevance and productivity of the laboratory."

"The Soviet Union proposes that the total aggregate level of nuclear warheads on strategic delivery vehicles of the sides should be below the number of nuclear warheads that the United States now has. Exactly this approach is the basis of the draft treaty that was submitted by the Soviet delegation in Geneva."

The formulation would mean reducing warheads to a level below the approximately 7,000 deployed by the United States, possibly to the 5,000 limit proposed by Mr. Reagan in May 1982.

But the Soviet formulation would allow the Russians to keep their big multiple-warhead ballistic missiles, an arsenal the Americans have insisted must be reduced.

Under current U.S. proposals, only 2,500 of 5,000 warheads could be based on land, and the overall number of missiles would be limited to about 1,200. But the Soviet side would, additionally, have to restrict its force of big SS-17s, SS-18s and SS-19s, the backbone of its strategic forces, by two-thirds, to 210.

American experts argued that the Soviet formula would leave intact the Russians' most formidable weapons.

The Pravda editorial said deep cuts in the number of missile launchers and limits on land-based intercontinental missiles would gravely weaken Soviet nuclear forces, which are primarily land-based.

The editorial further contended that the U.S. focus on missiles essentially left Washington free to deploy thousands of cruise missiles, B-1 bombers and other new systems.

Pravda said the selective limitations proposed by Washington were a "double standard" that would sharply reduce Soviet strategic systems while allowing the Americans to upgrade theirs.



Travelers peer behind the wall erected at the bombed Turkish Airlines counter.

6th Victim Dies From Bomb Attack At Orly Airport

Compiled by Our Staff From Dispatches

PARIS — A sixth person has died from the bomb attack Friday at Orly Airport claimed by Armenian extremists. Sixty persons were injured in the attack.

The victim was a 24-year-old American student in Paris who also holds Greek nationality. He was seen off his Turkish fiancée at Orly. She was not at the Turkish Airlines counter.

when the bomb, hidden in a suitcase, exploded, police said. Three French citizens and two Turks were killed.

The Secret Army for the Liberation of Armenia said it had planted the bomb. The group wants Armenian independence from Turkey and Turkish recognition of the massacre of Armenians in 1915. The bombing followed the slaying of a Turkish diplomat in Brussels by Armenian extremists Thursday.

Ara Toranian, the Paris-based head of the Armenian National Movement, a political group that backs the extremist group, said in an interview with the Journal du Dimanche that he disapproved of the airport attack. But he was quoted as saying that the group's leaders had been driven to "a strategy of despair."

6,000 Join Hands in London Protest Against U.S., Soviet Nuclear Arsenal

By Peter Osnos

Washington Post Service
LONDON — About 6,000 anti-nuclear protesters joined hands Saturday in Hyde Park in a human chain that linked the U.S. and Soviet embassies on the 38th anniversary of the first explosion of an atomic bomb.

The event was unusual in that it

was directed as much at the Soviet Union as at the United States. Identical letters were delivered to officials of the two embassies calling on the superpowers to declare an immediate freeze on nuclear weapons.

It was on July 16, 1945, that the United States first tested an atomic bomb in the desert near Alamogordo, New Mexico.

Large balloons representing the Earth were passed hand-over-hand across the mile and a half (2.4 kilometers) that separates the embassies, which are at opposite ends of the park.

The demonstration was organized by the Campaign for Nuclear Disarmament, the largest of Britain's anti-nuclear groups. Unlike most protests over the past year, this one was not specifically aimed at the planned deployment later this year of new U.S. medium-range missiles in Britain.

With deployment now widely accepted as a certainty, unless a U.S.-Soviet agreement on the missiles is reached in the Geneva arms talks, the disarmament group seems to be emphasizing again its broader opposition to nuclear weapons.

"We demand that you agree at once to an immediate freeze on all nuclear weapons," the letters addressed to the Soviet and U.S. embassies said, "as a prelude to making massive unilateral cuts in your nuclear arsenal, leading to multilateral and complete nuclear disarmament."

Saturday's demonstration was the organization's most ambitious in several months. The biggest of the fall will take place Oct. 22, when organizers hope to have a huge crowd fill Hyde Park in one last major attempt to influence the Geneva negotiations and the British government before the missiles are deployed.

Two weeks ago, the women of the Greenham Common peace camp, located at the gates of the base where the missiles are to be deployed, staged four days of demonstrations in an attempt to block the base.

Nonetheless, the demonstrations received relatively little press and public attention here and abroad. The Daily Mirror, which had been sympathetic to the Greenham Common women, published an article last week by an undercover reporter who said that the camp had become filthy, that many of the women were lesbians and that few seemed interested any longer in discussing nuclear arms.

Even so, the government still seems to recognize that its deployment of missiles approaches a resurgence of the anti-nuclear movement may well take place. In a meeting with foreign correspondents last week, Defense Minister Michael Heseltine said that there would be no formal ceremony marking the day the missiles become operational. He said the government had "no intention" of giving its opponents an opportunity to arouse public sentiment.

'Hot Autumn' Feared By the West Germans

(Continued from Page 1)
 pointed a liberal and popular labor minister, Norbert Blum, who is resisting this tendency.

In foreign policy, the accent has been on continuity not change, according to foreign diplomats. Mr. Kohl speaks a different language than Mr. Schmidt, but much of the difference is tactical, they say.

In Moscow, Mr. Kohl aggressively stressed the closeness to President Ronald Reagan and President Helmut Schmidt, his opponent in the election campaign, emphasized "the German interest" when talking about the U.S. missiles. The implication was that what might be good for the United States or even NATO may not be good for Germany.

Even in the peace movement, a specific German national note can sometimes be detected. Its members point out that only Germany has been asked to deploy the new Pershing while the other European countries will take the slower cruise missiles, which are less objectionable to the Russians.

It is pointed out that West Germany will have no control over use of the weapons.

The new West German government, like its predecessor, is strongly in favor of a continuation of the East-West dialogue beyond the missile issue. "New negotiating tables" must be found, an official said.

No one else in Europe attached more importance than the West Germans to the successful conclusion in Madrid of the Conference on Security and Cooperation in Europe.

The feeling of being "at the center" of the dispute on the missiles, of being the "most exposed" country but also of being entitled "to be heard" is pervasive in West Germany today.

Some call it patriotism and a new self-assertiveness. Some think it amounts to a new nationalism. Chancellor Kohl often talks of the Fatherland, and this talk is going over well with middle-class Germans.

In Moscow, he was bold enough to break the traditional taboo and call for the eventual peaceful reunification of Germany.

Seaton of the two Germanys. He even asked the Russians how they would feel if someone built a wall through Moscow.

To this, the daily Frankfurter Allgemeine Zeitung wrote in an editorial: "The West must apply the values of national self-determination and human rights also to the German question."

The new tone is not the monopoly of Mr. Kohl and his supporters. Hans-Jochen Vogel, his opponent in the election campaign, emphasized "the German interest" when talking about the U.S. missiles. The implication was that what might be good for the United States or even NATO may not be good for Germany.

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Lebanon, U.S. Plan New Talks

Teams to Seek Ways To Reassure Syrians

By Don Oberdorfer

Washington Post Service
WASHINGTON — The United States and Lebanon have begun work on a new diplomatic attempt to break the deadlock encountered by Secretary of State George P. Shultz on his recent Middle East trip, Foreign Minister Elias Salem of Lebanon said.

Mr. Salem, who conferred with Mr. Shultz for more than an hour at the State Department on Saturday, said afterward that U.S. and Lebanese diplomatic teams will engage in detailed discussions here Monday and Tuesday on "specific points" to be presented to Syria and Israel as well as to moderate Arab nations in the quest for withdrawal soon of all foreign forces from Lebanon.

Among the ideas being considered, Mr. Salem suggested, are ways to assure Syria that its security will be protected after its troops are withdrawn. If Damascus can be persuaded that tangible gains have been made, he said, it may be willing to reverse course and move toward withdrawal without formally accepting the recently negotiated Israeli-Lebanese pact.

The initial discussions here will set the stage for meetings Thursday and Friday between President Amin Gemayel of Lebanon and top U.S. officials, including Mr. Shultz and President Ronald Reagan, aimed at producing "a timetable for action or for testing ideas within a very short period" through presentation to other Middle Eastern parties, Mr. Salem said.

A Washington visit next week by Prime Minister Meachem Begin of Israel will provide an occasion for presenting new options to Israel.

Mr. Salem held out the possibility of a renewal of U.S.-Syrian discussions within the next few weeks, despite the stone wall that Mr. Shultz encountered in his five-hour session with President Hafez al-Assad in Damascus on July 6. "I think it is in the interest of both Syria and the United States to have a continuing dialogue," he said.

"We have a great sense of urgency. Our economy is threatened because of the stalemate. There is danger of demoralization of our population. . . . There is danger of losing the national consensus," said Mr. Salem, who arrived in Washington amid reports of renewed fighting between ethnic and religious groups in Lebanon.

U.S. credibility in the Middle East and the validity of its commitments are at stake in the present phase of Lebanon's travail, according to Mr. Salem.

"For us time is of the essence," Mr. Salem said. "We cannot afford to say the month of August is the month of vacation when things are at a standstill. And the next meeting will be in September when the United Nations meets and the foreign ministers come to New York. We cannot think like that at all. . . . We do not mind if one idea fails and then we try another. We do not mind if the process continues more than a month or two or three or four, provided all the time you are testing credible ideas, you are pursuing them and you are not just waiting for Godot."

At present, he said, a major problem is the "very close" alliance of Syria with the Soviet Union, which he described as "determined to foil American plans in Lebanon or any Middle East plan in which they are not a part."

Mr. Salem also said that Syria has fears about the Israeli-Lebanese agreement, believing that it "brings in the American presence to Lebanon" and "converts a big part of Lebanon into an Israeli protectorate."

New Fighting in Chief Region
 Renewed Christian-Druze fighting in the mountains east of Beirut shattered a 17-hour informal truce between the rival factions, United Press International reported from Beirut.

Officials of rightist Christian militias accused their Druze adversaries of opening artillery fire at two villages in the Chief Mountains without provocation. Druze spokesmen were not available for comment on the clashes.

Security sources said the shooting was less intense than a six-hour artillery duel between the two sides on Saturday.

WORLD BRIEFS

Greek Aide Sees Limit to U.S. Bases

ATHENS (UPI) — Greece said Sunday that the administration in power in Athens in 1988 will be legally obligated to start closing U.S. military bases under the terms of the new agreement with the United States.

Commenting on the possibility that Prime Minister Andreas Papandreu could be voted out of office in 1985, the government spokesman, Dimitrios Maroudas, said the agreement reached Friday that controls the operation of four main bases and 16 secondary installations would become law after ratification. "Whatever government is in power in 1988 will be bound by law to execute its terms," Mr. Maroudas said.

The agreement, initiated Friday by the U.S. and Greek governments, will go into effect by Jan. 1, 1984 and will expire Dec. 31, 1988. Mr. Maroudas said that under the terms of the agreement, the Greek government would have to warn the United States in August 1988 that the dismantling of the bases must begin at the end of that year. Mr. Papandreu said Friday the United States will have 17 months to dismantle and close the bases after the expiration of the agreement.

Uruguayan Military Seeks '84 Vote

MONTEVIDEO (AP) — The military government has said that elections will be held next year and that power will be turned over to civilians in 1985 despite the failure of negotiations on a new constitution.

In a message broadcast Friday night, the armed forces said they would dictate the terms of a new national charter unless representatives of the political parties agreed to work toward agreement on a constitution. The armed forces said the decision was the result of deliberations Wednesday and Thursday among active generals and admirals and the president, General Gregorio Alvarez.

The statement said general elections would be held in November 1984 and that power would be handed over to elected authorities March 1, 1985. There was no immediate reaction to the request that constitutional talks be resumed by the legal political parties.

Police Fire at Rioters in Londonderry

BELFAST (AP) — Police fired plastic bullets at rioters early Sunday when up to 100 masked youths, many armed with gasoline bombs, moved toward the center of Londonderry in Northern Ireland's seventh straight day of street violence.

They set one building afire and hurled about 60 bottles of flaming gasoline at police before they were dispersed, authorities reported. Officials said they had no reports of injuries and blamed the violence on supporters of the outlawed Irish Republican Army.

In another development, a British Army spokesman said experts defused a bomb Saturday night containing 400 pounds (180 kilograms) of explosives that was found beside a road in County Londonderry. It was similar to that which killed four Ulster Defense Regiment soldiers in their patrol car Wednesday.

Israel Seeks to Build Own M-1 Tank

WASHINGTON (UPI) — Israel has asked for permission to manufacture its own sophisticated M-1 battle tanks rather than buy the \$12 million vehicles from the United States, according to a secret General Accounting Office report.

The report also says the invasion of Lebanon last year provided Israel with an armaments bonanza, bolstering its arsenal with hundreds of captured Soviet tanks and artillery pieces and tons of munitions. The GAO report, issued publicly in an unclassified version on June 24, was made available to some news organizations in a largely unpermeated form by the American-Arab Anti-Discrimination Committee.

Six pages of the ordinarily highly secret information — mainly from the Central Intelligence Agency and the Defense Department — was not made available to the committee. The Justice Department, at the request of the GAO, has opened an investigation into how the committee got the report, which was prepared for Congress. The missing six pages of the original report, mainly dealing with the Arab-Israeli military balance, have been made available to United Press International. These pages report on the tank request.

Austrian City Orders Dioxin Moved

LINZ, Austria (AP) — City officials have ordered Chemie Linz, the last European producer of dioxin, to start ridding its pesticide plant of boxes full of the toxic chemical waste by Tuesday or face partial closure, according to news reports.

Officials of the company reportedly protested the order and claimed they needed at least 14 days to dispose of the dioxin, a byproduct of their manufacturing process. The waste is said normally to be shipped through West Germany for incineration on ships in the North Sea. Several newspapers have said that Bonn recently closed its territory to transports of the dangerous waste, reports denied by Chemie Linz officials.

Kurt Steyer, Austria's health minister, said Saturday he favored closure of the plant, but he did not elaborate. Environmentalists in the region, in northwestern Austria, have recently stepped up their campaign to end dioxin production in Linz.

Walesa Assails Proposed Regulations

WARSAW (AP) — Lech Walesa, the leader of the banned Solidarity trade union, says the Communist government is further alienating the Polish people by preparing tough new regulations to replace martial law.

Mr. Walesa, returning Saturday to Gdansk from an unauthorized vacation, said in a telephone interview that he would continue defying the authorities by extending his vacation until Aug. 1.

Mr. Walesa said that the new laws being prepared by the Polish parliament would "widen the gulf dividing this society." The regulations, which are expected to be passed by parliament this week and replace martial law, would tighten controls on workers, students and academics.

Hijacked U.S. Airliner Lands in Cuba

MIAMI (Reuters) — A Delta Air Lines Boeing 727 airliner hijacked over Florida with 100 passengers and seven crew members aboard landed safely Sunday in Havana, U.S. officials said.

A spokesman for the Federal Aviation Administration said that at least three men had hijacked the plane, which was on a flight Sunday morning from Miami to Tampa.

It was the third airliner hijacked this month and the seventh hijacked this year while flying into or out of Miami, officials said.

For the Record

MOSCOW (Reuters) — The Soviet Union has appointed its former envoy to Poland, Boris Arisov, to the post of deputy foreign minister, Tass said Sunday.

VIENNA (Reuters) — Cardinal Franz König, 77, the Roman Catholic archbishop of Vienna, was quoted Sunday in the independent daily Neue Kronen-Zeitung as saying he will retire after a visit to Austria by Pope John Paul II in September.

LISBON (Reuters) — Portugal and the United States will resume negotiations Monday on renewal of the lease on the U.S. air base at Lajes in the Azores, five months after the previous agreement expired, according to political sources.

Soviet Pentecostals Are Said to Get Visas Salvadoran Labor Seeks Vote Delay

(Continued from Page 1)
 but with hopes of moving toward a more constructive relationship.

The document is a follow-up step to the Final Act of the 1975 Helsinki conference on European security and cooperation, which was signed by the United States, Canada, 32 European nations and the Vatican.

The Helsinki document provided for measures to enhance security, economic cooperation, human rights and a flow of ideas and people between East and West.

The Madrid agreement also sets up a follow-up meeting in Stockholm next January "to work out detailed measures to reduce the fear of surprise military attack."

An agreement is to be negotiated calling for states to notify others of certain maneuvers.

Mr. Kampelman emphasized that the notification measures to be adopted at Stockholm "will apply to all of the European portion of the Soviet Union, right up to the

Ural Mountains, rather than only to the 150-mile band [on the western border] provided for in the Helsinki Final Act."

A series of other follow-up meetings will include two dealing specifically with human rights and human contacts.

Mr. Kampelman said that the Madrid document would add "important new provisions" to the Helsinki accords that "deal with the rights of workers to organize, with human rights, with Helsinki monitors, religious rights, human contacts and family reunification, access to diplomatic and consular missions, information, rights of journalists and measures against terrorism."

The U.S. delegate also said that in light of the Polish situation, new language on trade unions was obtained in the document.

"It clearly states that participating states 'will ensure the right of workers freely to establish and join

trade unions, the right of trade unions freely to exercise their activities and their rights," he said.

Language was also obtained, Mr. Kampelman said, to protect individuals trying to monitor a country's compliance with the accord.

The president, in his statement on the compromise, said: "We have agreed to this concluding document, as we did in 1975, to the Helsinki Final Act itself, with no illusions about the nature of the Soviet Union or about the system which it seeks to impose over much of Europe."

"We will sign it with the hope that it will serve as a step toward achieving our objective of a more stable and constructive relationship with the Soviet Union."

"We must all consolidate and build on these gains. We must ensure that good words are transformed into good deeds and the ideas that they embody are given concrete expression."

SAN SALVADOR — El Salvador's largest labor organization has urged postponement of the presidential elections scheduled for later in the year and said a proposed constitution would perpetuate the violence here.

A statement released Saturday by the Popular Democratic Union said the government should delay elections until 1984 to encourage leftists to participate in the voting.

"We reiterate our call for dialogue so that a political pact can be guaranteed to the conflictive sector so that it can participate in future elections," said the statement signed by five groups claiming to represent about 500,000 laborers. President Alvaro Alfredo Magaña said last week the elections would probably be held the second or third week of November.

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INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

More Economic Games

The players have been shuffled but the economic policy games go on — especially the M-games. Liberal economists, newly allied with White House pragmatists, want the Federal Reserve to encourage recovery by letting the money supply, as recorded in M-1, its most basic measure, grow faster than planned. They point out that M-2, an alternative measure of money, is well within the target range.

On the other side are orthodox monetarists, allied with Wall Street conservatives, who plead for caution. Better a slow recovery, they say, than having to cope again with inflation.

Liberals have the edge in this narrow debate. With so much excess productive capacity in the economy and real interest rates at record levels, inflation is not yet a serious threat.

What neither side acknowledges is the harsh truth that, no matter how achieved, growth contains the seeds of its own destruction.

Judging by American economic performance in the last 15 years, it has become virtually impossible to sustain both growth and stable prices. Unless the country begins to deal with the fundamental causes of stagflation — the failure of prices to go down even in stagnant years — every path to recovery will also be a path to more inflation.

Washington breathed a sigh of relief when Paul Volcker, the chairman of the Federal Reserve, clamped on the credit brakes in 1979. Most economists and politicians understood that monetary austerity would greatly reduce employment and output, but they were willing to pay the price because the political system had frustrated every other attempt to break the inflationary spiral.

Now that the inevitable recovery has begun, many of these same experts and politicians find it convenient to pretend that a new day

has dawned. They spread the idea that some clever combination of fiscal and monetary policies will allow the United States to reduce unemployment to acceptable levels without again triggering inflation. But since the '60s, each cycle of inflation and recession seems to have left the economy more susceptible to inflationary pressures, not less.

Conservatives argue, correctly, that more vigorous competition could make high growth and high employment compatible with stable prices. They thus want to reduce union power in concentrated industries and to end anti-competitive subsidies to and regulations over business. But resistance is fierce. The Reagan administration can barely resist further encroachments on competition, such as higher price supports for farmers and trade protection for the auto industry.

Absent more competition, the liberal alternative is some sort of "incomes policy" — preferably tax incentives that would punish both business and labor for inflationary wage settlements that drive up prices and invite still higher wages. Reaganites reject such "interference" with wages and prices, apparently on ideological grounds. Big labor is equally offended, fearing a loss of bargaining power.

There is, plainly, no mandate for reform, liberal or conservative, and in these circumstances the politician's instinct is to ignore the need for fundamental change until the next election, or until the one after that.

The inflation fever may not return until after the 1984 voting, but if the lessons of recent history continue to be ignored it will surely return, perhaps more terribly than before. And the recession needed to cool that fever will be more terrible still.

—THE NEW YORK TIMES

So Eagerly Running

Most of the candidates for the Democratic presidential nomination have been crisscrossing the country speaking to organizations that are likely to be powers at the party's national convention next year. All six prepared 10-minute videotapes for delegates to the convention of the National Education Association in Detroit. Five went to Detroit to speak before the League of United Latin American Citizens. The same five then off to San Antonio for the National Women's Political Caucus, and the touring continues.

At each stop, each of the candidates seems to perform a little ritual. First comes denunciation of the Reagan administration and all its diabolical works. Then comes endorsement of just about every plank in the host organization's platform. That is accompanied by an effort to convince the audience that the candidate is sympathetic not only in his views but also in his choice of words. (John Glenn got in trouble with the women's caucus for using "man and wife" rather than the approved form, "husband and wife.")

There is something a little disturbing about this spectacle of candidates trying to convince diverse groups of their orthodoxy. The groups are seeking clues as to whether the candidates,

in their hearts, feel as strongly as the groups do about their particular issues. But that is better determined by scrutiny of a candidate's career.

The candidates, in trying to please or avoid displeasing the groups, may find themselves endorsing positions that will make campaigning more difficult if they are nominated and governing more difficult if they are elected. And they may end up endorsing the group the most important power a candidate has; that of framing the issues. Instead of using this early stage of their campaigns to articulate their ideas of where America should move and what government should do, they are trying to prove their adherence to others' positions and orthodoxies. But activists do not always reflect the views of those they purport to represent, much less those of voters or citizens generally.

Ronald Reagan won the 1980 election in large part because he articulated such a general vision; it was Jimmy Carter who was reduced to appealing to the separate concerns of various organized groups. Of course the Democrats should pay some attention to the groups they have been appearing before. But they do so because they are being asked to. They let those groups set the agenda.

—THE WASHINGTON POST

Nay to the Hangman

In America and Britain the polls show majority support for capital punishment, especially as a penalty for terrorism. Yet only hours after Irish terrorists killed four millionaires, the House of Commons overwhelmingly rejected a return to hanging. Why?

Debate matters. It is one thing to give a snap response to a poll question but quite another to weigh the moral, legal and political implications of judicial killing. Among advanced industrial nations capital punishment survives only in the United States, South Africa, Japan and the Soviet Union. So there is ample experience as to whether eliminating the death penalty weakens law enforcement.

In America, after the penalty had been effectively dropped in the 1960s, 38 states reimposed it in the 1970s. There have been 1,154 death sentences in recent years, yet violent crime has increased. Some would say it is because only seven persons have actually been executed. But the number of executions will never be very large.

Americans approve of official killing in theory but hesitate in practice. They want no mistakes. They want all mitigating factors explored. They don't really believe that a dozen more executions would deter murder. So they provide for endless appeals, an ordeal that adds to the cruelty of a brutal punishment.

What about terrorists? Since the British abolished hanging in 1965, the sectarian butchery in Northern Ireland has claimed 2,300 lives. But the rope is no answer for killers

who are prepared to die for a cause. So believes James Prior, the British minister responsible for Northern Ireland, and his opinion carried great weight with Parliament.

Indeed, for Irish Republican Army gunmen martyrdom is a weapon. Their heroes are the Easter rebels executed by the British in 1916. They scorn treatment as ordinary criminals; 10 IRA prisoners inflicted capital punishment on themselves in 1981 because they did not receive special status as political offenders. It would be a favor to their movement to treat their crimes differently from common murder.

In Northern Ireland, moreover, as a result of the violence, trial by jury has been suspended. So judges alone, sitting in special courts, would have to order any death sentences. And since most IRA gunmen have dual British and Irish citizenship, executing them would embolden Britain in furious arguments with the Irish Republic and human rights groups.

Weighing those and other arguments, a Parliament with a 144-vote Conservative majority said no to the hangman. So would most people if they troubled to consider the matter carefully. Poll results favoring capital punishment measure emotion, not reason or information.

Taking a life for a life is illusory deterrence and primitive morality. What was said in Britain by Enoch Powell applies as well in every country: A penalty that doesn't deter, he said, is "an avoidable brutality that brutalizes the society that inflicts it."

—THE NEW YORK TIMES



Here Come the All-Purpose Alternatives

By David S. Broder

WASHINGTON — The race for the Democratic Party's presidential nomination has barely started and already the danger of wretched excess is evident. Every time the Democratic candidates get together to woo a particular constituency, they egg each other on to make more and more outlandish promises.

It started in Sacramento, California, in January. Competition for chairs from the "nuclear freeze" crowd at the party's state convention drove Senators Alan Cranston and Gary Hart and former Vice President Walter Mondale to debate the speed with which each would move to seek out Yuri Andropov for arms negotiations. One said he would be in Geneva to open the talks the day after he was sworn in; another said he would pick up the "hot line" to Moscow the very night he was inaugurated; and so on.

Next it was the bidding for the support of the teachers at the convention of the National Education Association in Philadelphia, where a dark horse, Senator Ernest F. Hollings, trumped everybody by pledging \$14 billion a year of new federal aid, including a minimum \$5,000-a-year pay raise for every teacher.

Then the tour went to San Antonio, Texas, for the National Women's Political Caucus, and the question was how far each would go in pledging to work for enactment of the Equal Rights Amendment the next time around.

Reubin Askew, the former governor of Florida, was absent, as usual.

Senator John Glenn, as usual, was restrained: He said he would "use the full power of the presidency to get that amendment passed by the Congress and ratified by the states," but he

made clear that he would stop at exhortation. Senator Hollings, as usual, was colorful and expansive. "I'd be an LBJ," he said. "I'd give a little and take a little, and we'd swap around and have that thing passed in a year's time."

Former Vice President Mondale was a bit wordier, but the message was the same. "I will do what's necessary to re-propose and ratify the Equal Rights Amendment," he said. "A president can be very influential. . . . I have worked in the White House . . . and you find that people come from all over the country wanting something, and as president I'll say, 'I'll help you reach an honorable objective if you'll go back to your state and deliver for the ratification of the Equal Rights Amendment.'"

Senator Cranston was even more explicit. "I will lobby and lead," he said. "I will use the leverage of the federal government." And then, referring to concrete punishments and rewards for state legislators, he added, "If I am president, the Equal Rights Amendment would not fail for lack of a bridge or transportation project."

Said Senator Hart, not to be outdone: "The power of the presidency has not been used to the extent it can to achieve ratification. I think it extends not only to bringing normal political pressure to bear on members of the president's own party, but . . . I'm talking about specific federal projects to be used to bring around people who are on the fence on that or whose support is at least lukewarm."

Well, the Constitution gives the president no

direct role in the amending process, which is the province of Congress and the state legislatures. Walter Dellinger, a Duke University law professor who is an authority on that process, says that while examples abound of "subverting and dealing" in the legislatures and Congress on constitutional amendments, he knows of only one case in which Washington used its "coercive powers" to secure ratification of amendments.

That was after the Civil War when Congress required the former Confederate states to ratify the 14th and 15th amendments as a condition for regaining their standing in the Union and their representation in Congress. "As a condition for a treaty of peace to end a bloody war," Professor Dellinger said, "it may well be defensible, but not as a precedent in any other circumstance."

But here are four men seeking the presidency who imply or baldly state that they would use the powers of that office not just to urge but to induce the state legislatures to change the fundamental charter of the country.

The French force is carefully thought out, technically sophisticated, intelligently commanded and of high morale — as evidenced by conversations with commanders and staff at the submarine component's headquarters in Brest. It attempts to do no more than protect France.

The British and French nuclear forces increase the security of Europe (and indeed of the United States) because they increase the complexity of Soviet strategic calculations. They are the ultimate security of Britain and France. Given that a return to nuclear innocence, to a disarmed world, is beyond possibility, it is arguable that the road toward security (a goal which will never be reached) is to so generalize national nuclear systems as to make the active threat, or the use, of nuclear weapons impossible. The British and French deterrents point that way. It is not a very inviting route, but it may prove the best we have.

The Washington Post

The Bomb and the Lesser Powers: Lesser Evil?

By William Pfaff

BREST, France — The argument can be made that, while it is bad for big countries to have nuclear weapons, so long as they have them it is good for small countries to have nuclear weapons, too. This goes against the conventional wisdom of nuclear nonproliferation, but the conventional wisdom is often wrong.

Clearly, everyone would be better off if these weapons had never been invented. They are disproportionate to reasonable uses. They are a costly, frightful, intellectually unassailable, morally untenable component in the armaments of nations.

A general in the British army is supposed to have said in November 1918, "Thank God, now we can get back to real soldiering." It was not a foolish remark. In the same way, nuclear weapons make real war impossible — serious warfare, which means limited warfare waged to achieve politically valid objectives.

This has been proved to the general

benefit since 1945. There have been several crises between the superpowers which in another day might have provoked a war. The archduke, so to speak, has been assassinated more than once since 1945. No war has taken place between nuclear powers, not only because their populations recoil from the idea but because the existence of nuclear deterrent systems has made it too dangerous to begin something that might slip catastrophically out of control.

But the superpowers have not stopped with simple deterrence. They have tried to find "usable" nuclear systems and "extendable" (i.e., to allies) deterrents. Thus NATO committed itself to the threat of nuclear first use in the 1950s, and to "flexible response" in the 1960s, while the Soviet Union has produced a doctrine of nuclear war-fighting and war-winning, and is committed to the idea

that nuclear weapons cannot be excluded from a war in Europe.

The result has been steadily larger and more complex nuclear systems, but a diminished popular sense of security, at least in the West.

U.S. nuclear systems tend no longer to reassure Americans, or the allied public, but to disturb them, contributing to a sense of contingency and vulnerability. That is why the peace movement has again become an important factor in West European and U.S. affairs.

The peace activists' remedies to the situation may be politically unsophisticated, credulous with respect to Soviet policy, or willfully indifferent to historical evidence in presuming that unilateral Western measures of arms reduction would be reciprocated by Moscow. Never mind. They seem to offer the possibility of constructive action to millions of people who are deeply and justifiably distressed.

Among Americans professionally engaged in strategic analysis and arms control, it is usually taken for granted that the superpowers can be counted upon to act responsibly, since so much is at stake for them if they err. It is supposedly another matter for the smaller states.

Admittedly, the prospect of Libya's Colonel Qaddafi or the late Emperor Bokassa of Central Africa possessing a nuclear bomb is pretty frightening. But in the historical record national size has not equalled responsibility, and the leaders of small countries have rather more reason to fear the consequences of war than those of the great nations, which have elaborate defenses as well as deterrent preparations.

The government of a small country cannot seriously expect nuclear weapons to serve it as more than a deterrent or a defense in extremis. It is difficult to write the scenario by which South Africa, Israel, India or Pakistan profitably makes use of nuclear weapons in other than the deterrent-defensive-retaliatory mode, responding to mortal threat.

Small power systems are of their nature passive and reactive. They thus tend to be stabilizing rather than destabilizing. They add to the problems of the major powers, contributing to the complexity of calculation required of anyone contemplating the aggressive use of nuclear threats.

The Soviet Union's current insistence that French and British deterrents be included in medium-range missile negotiations is evidence of how seriously they are taken in Moscow.

Because they are deterrent they are inherently limited. Britain's government finds that a small submarine missile force is sufficient to the country's needs. The French nuclear force is larger, but fundamentally simple: a score submarine force, a small land-based missile force which

The Pope, The Poles And Jews

By Leopold Unger

BRUSSELS — It lasted only a few seconds and the international press must have been looking the other way. It was just a few seconds of silence that bore a burden of 10 centuries: Pope John Paul II stopped at the monument to the heroes of the Warsaw Ghetto, knelt down, shut his eyes and bent his head in prayer.

The pope's silence spoke for 1,000 years of common history shared by Poles and Jews between the Baltic and the Carpathian Mountains. It is a complex story that includes periods of tolerance — when Jews expelled from Western Europe could find a haven near the Vistula — and much longer periods when the Roman Catholic Church preached against the "God-killing" Jewish people.

Despite numerous acts of great courage during the Nazi occupation, when thousands of Poles risked and lost their lives to help Jews, the Holocaust seemed not to have altered the traditional anti-Semitism of many Polish Catholics. The presence of Jews among the new Communist rulers gave ammunition to some in the church and to nationalist politicians to argue that the new system imposed on the nation was foreign.

The church had its tradition, and the pogrom of Kielce in 1946 — the last pogrom recorded in Europe — did not alter the church's stand. Nor did anti-Semitic purges organized by the Communist government.

Two developments have brought a change. The first was the short but courageous life of Solidarity. The church saw that when the Communist government attacked Jews, it was really aiming at the Polish people. To communists Solidarity, a movement essentially Catholic, the police and the party made a point of alleging the Jewish origin (sometimes true, sometimes not) of Solidarity militants. On the day of the military putsch, Dec. 13, 1981, the first commentaries by Warsaw Radio justified the military takeover by decrying the number of Jews in Solidarity.

The second development that transformed the Polish church was the election of Cardinal Karol Wojtyla as pope. Contrary to rumors at the start of his reign, his attitude toward Jews owes little to the unfortunate tradition of the Polish church. His humanitarian was well known, and there was surprise when he failed to visit the Warsaw Ghetto during his first trip to Poland in 1979. Vatican officials said the Polish government refused to include the ghetto on the papal program. But this year John Paul II was not deterred.

The image of the pope kneeling in front of the monument in the ancient Jewish ghetto will be one of the brightest in the commemoration of the 40th anniversary of the ghetto uprising. It is also a sign that the military rulers have failed in trying to control the commemoration.

The pope's gesture in effect supported the position of Marek Edelman, a surviving leader of the ghetto uprising, who has refused to take part in the commemorative ceremonies organized by the military.

"Forty years ago," Mr. Edelman said in an interview, "we fought not only for our lives but to live in dignity. Participating in the ceremonies with the military rulers this year would be an act of cynicism."

The pope's minute of silence was a gesture of reconciliation between Jews who died in dignity and Poles who want to live in dignity, and a statement that this reconciliation cannot take place with the dictatorship but only against it.

At the ghetto monument, the pope declared to the Polish people that what matters is not the "Catholicism" or "Jewishness" that flows in the veins of Poles, but the fact that this blood has been and continues to be shed for the same goal — dignity.

International Herald Tribune

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be edited for clarity and brevity. We cannot acknowledge all letters, but we value the views of the readers who submit them.

FROM OUR JULY 18 PAGES, 75 AND 50 YEARS AGO

1908: Tug-of-War Causes Dispute

LONDON — While the athletes from the United States have won several firsts in the Olympic heats, any elation was quite overshadowed by the indignation that was generated by the outcome of the first heat in the tug-of-war. In that event eight stalwart Americans competed with eight men from the police force of Liverpool, and were easily pulled across the line. It is easy to imagine how the Americans could have been outpulled fairly and squarely, as none of them really knew anything about a tug-of-war, while the teams selected to represent England were veterans at the game. But when the manager of the American team examined the shoes of the British team, he found them to be fitted with sharp steel plates that were almost the equivalent of spikes.

1933: French Socialists to Split?

PARIS — The French Socialist Party, the only important section of international socialism left on the European Continent, appeared to be heading for a split when the annual convention of the party failed to heal the breach between the left-wing majority and the right-wing minority. The convention was called upon to decide whether to censure the conduct of about half of the Socialist deputies, who have taken it upon themselves to support the government even on issues opposed to the party's doctrines and programs. The argument of the minority has generally been drawn from the fact that, without the full Socialist vote, the Radical government would be overthrown and the door would be opened for a government of "conservative reaction."

The Bomb: For Argentina The Option Stays Open

By Daniel Poneman

CAMBRIDGE, Massachusetts — Shrewd policy may enable Argentina to acquire a nuclear arsenal without breaking its international agreements. It now enjoys the best of both worlds, obtaining extensive foreign support for its civil nuclear program without compromising its military options. Once other nations are not needed, they will have lost valuable leverage for deterring production of the bomb.

Argentine nuclear strategy has long been driven by a quest for independence. Its National Atomic Energy Commission has trained thousands of technicians and assimilated extensive foreign technology. In negotiating with suppliers, it has paid a premium to reduce the strings attached to imported technology.

A plutonium reprocessing plant is near completion and a large research reactor has been planned. In a few years these facilities could produce enough plutonium to make perhaps one nuclear weapon a year.

The government deplores anti-proliferation accords as hypocritical efforts "to disarm the unarmed" while perpetuating the global hegemony of the nuclear-weapon states.

Lost Western dominance in nuclear trade heightens the danger. From Moscow Argentina has purchased fuel-production equipment, heavy water and 20-percent enriched uranium. The president of the Atomic Energy Commission, Carlos Castro Madro, has admitted that Beijing at one point agreed to sell similarly enriched uranium; Argentina's fi-

nancial troubles stalled the deal. Fortunately the Argentines are not now single-mindedly bent on acquiring nuclear weapons. Every commission leader since 1950 has avowed peaceful intentions. (After the Falklands defeat, Mr. Castro Madro empty threatened to build a nuclear submarine rather than a cheaper, simpler nuclear weapon. That satisfied domestic pressure for a nuclear response, without jeopardizing foreign help.) But that could be changed by political upheaval, perhaps initiated by this October's elections.

The commission, purged after both of the last two changes of regime, could be coerced into using its long-accumulated nuclear expertise and unsafeguarded fuel facilities to build nuclear weapons. The military could surely find a way to deliver them.

Foreign nuclear leverage would disappear just when needed most — when Argentina overcame the technical dependence that so far has helped prevent acquisition or testing of nuclear arms. While time remains, nuclear suppliers should insist that Argentina accept some comprehensive nonproliferation commitment as a condition for continued assistance. Only then will Buenos Aires be forced to choose between nuclear power and nuclear weapons.

The writer, a research fellow at Harvard University's Center for Science and International Affairs, is author of "Nuclear Power in the Developing World." He contributed this comment to The New York Times.

Letter: Music and Home

From Andrea Dori Sippel in Florence

I HAD been away, and when I returned to Florence someone I was talking to in a cafe told me you had published my letter to you about Jorge Risi, the violinist who didn't program concerts. ("A Uruguay in Exile," Letters, July 7.) I shall be sending the clipping to Risi and company in Mexico and saying, "Quedodo! The gringo violinista has not forgotten and is trying, in her own way, to do something."

I lived for four years in Mexico and worked in the Mexico City Orchestra that was started by Mrs. Lopez Portillo in 1978. I doubt that an orchestra like that one had existed before or will again. It was one-third Mexicans and Latin American exiles (including Risi, the concertmaster), one-third North Americans and one-third East Europeans (Russians, Bulgarians, Poles) with visas allowing them to work abroad. Our common language was Spanish spoken with all imaginable accents.

As the pet project of Mexico's Señora Presidente, we were sent around the world to play for heads of state in the most renowned concert halls as ambassadors from Mexico. Was it so strange that Mexico's premier orchestra should be two-thirds foreign? If one harks

back to Beethoven Cellini one realizes that artists and craftsmen of ten went to whoever was willing to support them — the Medici, the pope, the king of France. Why not Petros de Medici?

Well, this particular crew of musicians established a solidarity among themselves somewhere between the Beethoven and Brahms and the Mexican national anthem. What with the music and our human juxtaposition in contexts around the world, I learned a great deal about politics, freedom, music and, mostly, people — so much, in fact, that I marvel in hindsight at the privilege.

As an American I don't know how to go about working toward awakening my countrymen to the world of fellow human beings beyond the frontiers.

As a musician I deal mostly with musicians, and musicians don't really care about much except, say, what the Florentine air is doing to the varnish on their fiddles or to their vocal cords. As an American musician, I don't really want to go home just now. Still, it continues to grieve me that Jorge Risi wants to go home and can't.

More letters: Page 5.

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Sihanouk Moderates His Anti-Vietnamese Stand

Exiled Leader Is Thought to Fear Chinese Move to Install Pol Pot in Cambodia

By Colin Campbell

New York Times Service

BANGKOK — The Vietnamese call him a has-been, and he has held no power inside Cambodia for 13 years. But Prince Norodom Sihanouk, now 60 years old, keeps springing back from oblivion.

For the past year he has been president of the exiled coalition government of Democratic Kampuchea, which the United Nations recognizes as Cambodia's sole authority. Over the past couple of months, moreover, he has been voicing a new idea that some consider scandalous.

He has been telling people, not very privately, that his own anti-Vietnamese coalition — armed by China and greatly aided by the noncommunist Association of Southeast Asian Nations — has become too crudely anti-Vietnamese. Independent as ever, Prince Sihanouk has been saying the international campaign to save Cambodia from Vietnam may be on a futile, dangerous course.

What has made Prince Sihanouk an important figure in Southeast Asia since 1941, when Cambodia's French colonial masters pulled him out of high school and named him king?

First, he is forgiving to a fault. When tossed from power he finds powerful friends. Second, his legitimacy as a leader far outstripped that of his successors: He was Cambodia's traditional "god-king" once, with much more over the peninsula, and he was freely elected prime minister. Third, in foreign affairs he had a realistic bent.

The two leaders who followed him — Lon Nol, a rightist mystic, and Pol Pot, a fanatical Marxist — both fantasized, as Prince Sihanouk never did, that little Cambodia might vanquish Vietnam. The chief in Phnom Penh now, Heng Samrin, is Vietnam's creature.

Prince Sihanouk's worst enemies, who consider him vain and irresponsible, acknowledge his shrewdness in identifying Cambodian independence and neutrality with himself. But his shrewdness has often failed.

Furious at his overthrow in 1970 by pro-American generals, he immediately joined forces with Cambodia's Communist insurgents. His speeches and prestige helped them grow, and they seized Phnom Penh five years later. He became president for a year in Pol Pot's government.

But soon he lost even the title and became a captive; more than a dozen of his relatives died in the general slaughter. By the time Prince Sihanouk flew off to China — a few days before the Vietnamese entered Phnom Penh on Jan. 7, 1975 — his palace was broken and dirtied beyond repair.

Yet he took up the war of words against Vietnam and condemned Pol Pot. He urged the United Nations to declare that Cambodia had no government at all. But his position became a lonely one. Pol Pot's deposed government held its seat in the General Assembly, maintained its armed presence inside Cambodia and lacked nothing but respectability and a country.

A year ago, the prince was persuaded to join forces with those he had recently said were "fighting to

keep their own compatriots enslaved." He has been in the limelight since, rallying friends with his squalid eloquence.

Lately, however, his position has shifted slightly. Frustrated at repeating the formula that Pol Pot

NEWS ANALYSIS

may be a murderer but is nonetheless a patriot, the prince has been telling friends he dreads Pol Pot's return. He reminds listeners how he once got along with the Vietnamese, and he has been warning his partners that France, Australia and other countries seem more inclined to deal with Vietnam despite their disapproval of its venture in Cambodia.

Prince Sihanouk's son, Norodom Ranariddh, said last month after his father threatened to quit the coalition that the prince was "very pessimistic" about the coalition's "narrow" anti-Vietnamese stance. The coalition just kept repeating that Vietnam must go, he said.

"Do you think for a moment that Vietnam would withdraw unconditionally from Kampuchea?" the son asked. "No," he continued. "So Prince Sihanouk says that we must find another technique for dealing with the situation."

The son confirmed a recent report that Prince Sihanouk suspected China, his longtime supporter, of planning secretly to eject the Vietnamese by force. The possibility

thinks the prince, hints of Pol Pot's return to power and could legitimize Vietnam's refusal to withdraw. The only alternative, he has said, is a negotiated settlement involving the neutralization of Pol Pot's guerrillas.

In April, Vietnamese troops destroyed the prince's own military camp in western Cambodia. He has recently learned in detail how Pol Pot's soldiers killed some of his relatives. He is worried by reports, none yet proven, that hundreds of thousands of Vietnamese civilians are colonizing his homeland.

Prince Sihanouk looks relatively trim these days, but he doesn't believe — as Peking, Washington and several Southeast Asian capitals keep asserting — that time is on his



Prince Norodom Sihanouk

side, or his coalition's, or Cambodia's. So he has been freshening his sturdy old image as an independent.



Helen, left, a friend and her children prepare an evening meal in the village of Olooseos.

In the Dark of an Uncharted Village, Kenya's Success Story Seems Remote

By Alan Cowell

New York Times Service

OLOOSEOS, Kenya — The average Kenyan, according to the World Bank's figures, can expect to live 55 years and be valued, in terms of gross national product, at \$380 a year.

In contrast with 20 years ago, twice as many Kenyans live in cities, twice as many go to school and more than twice as many can read and write. Only half as many children die before the age of 4; the population soars.

The figures are not posted here, in this village on a bald hill at the tip of Africa's Rift Valley, but the life of the people provides its own counterpart to what, compared with other African countries, might be called a statistical success story.

Olooseos is no more than a scattered collection of huts and fenced areas where hedges guard meager privacy. Corn grows in patches, and goats and cows graze, tended by barefoot children.

At evening, on the ridge that slides down from the Nyong Hills, the lights of Nairobi twinkle 15 unbridgeable miles (24 kilometers) to the east. To the west there is only the somber plunge of the Rift Valley, harsh and thorny.

A traveler might not find this place easily; it is on no chart or packaged tour.

But a marooned traveler, perhaps someone whose motorcycle has broken down among herds of gazelles and thickets of thorn, might stop here and glimpse, for a moment, lives that seem remote from Kenya's capital.

The odyssey might begin with an encounter on the road to Olooseos with a man of the Masai tribe, dominant here, clad in a scant scarlet robe, carrying a spear that seems of infinitely greater worth than the traveler's crippled motorcycle.

The outsider might be carrying packets of tea and sugar, in case offerings are required, and the Masai man will take what is given, but extend no thanks. Such acknowledgment of common belonging cannot be bought so quickly with such tawdry goods. The Masai, the man is saying with his silence, were here before the foreigner, and will endure.

That seems less sure as the journey progresses in the heat, under skies clear and blue, where eagles soar. For many Masai have taken to the city.

The plains, on the valley's lip, are endless, but not the daylight. There are no streetlights to herald the traveler's tired entry into Olooseos.

22 Die in Philippines Storm

The Associated Press

MANILA — Twenty-two people were killed and thousands of others left homeless by the first typhoon to hit the Philippines after eight months of drought, relief agencies reported Saturday.

only children, amused by the ruined totem of modernity the outsider pushes before him in the dirt track, cursing as if it were a recalcitrant steel mule.

"Is there a car here?" he asks. "There is no car," say the children, shy, shuffling their feet, a little bewildered by the preposterous question.

"How far is the main road?" "Not far." They gesture over a distant hill, already indistinct in the twilight.

"Where can I leave this machine while I walk?"

Much discussion, for this is an age of responsibility, laden with consequences.

"Here, you can leave it here." It is the oldest boy, suddenly assuming manliness.

There are no men here. There is in the collection of huts where the broken machine is to be stored only a woman called Helen and her friend and their many children, nervous at the intrusion.

The men are probably in Nairobi, working as night security guards, the elongated carobes of their tribal custom at odds with the Gilbert and Sullivan uniform supplied by the guard services that protect the homes of the wealthy.

Here there is only the dark and cold wind and the cluster of warmth and talk around a cooking fire, filling the hut with smoke and making the youngest child's hawking cough, more, hawking.

U.S. Medical Bill Tops 10% of GNP For First Time

Washington Post Service

WASHINGTON — The national medical bill rose by 12.5 percent last year to \$322 billion, according to figures compiled by the Department of Health and Human Services. The figure represents 10.5 percent of the gross national product, the highest share ever.

In 1981, medical costs were 9.8 percent of GNP; in 1965, the figure was 6 percent.

The 1982 figures showed that government spending — federal, state and local — accounted for 42 percent of the national health bill. Three-quarters of that came from the federal government, mainly for Medicare and Medicaid, health programs for the elderly and the poor.

Individuals paid nearly a third of the health costs themselves, and the remaining quarter came from private health insurance.

The increase in medical costs was about twice the general rate of inflation. The new figures, still unpublished, are certain to lead urgency to efforts to curb health-care costs to hold down the federal budget and inflation.

Here there is nothing to hold a man, no lights or bars or adventures or money, one of the enticements of the city.

The roof of the hut is of corrugated iron, not straw, a sign of progress.

But the life within is the same as in many parts of Africa, where the luxuries taken for granted in the West do not obtain: there is no transport, save for walking; no means to defy the dusk with artificial light or to force the crops to come forth before their season.

There is no water from a faucet, no medicine strong enough to stop the child's hollow cough, no telephone to ease the loneliness and isolation.

The people here do not give their children permanent names until they are sure they will survive, so frail is the belief in life's trustworthiness. There may be a church in a shack on a hill, but the spirits still stalk the dark plains.

Kenya is not one of Africa's poorer countries, but development has not yet been sufficient to eradicate the burdens that dominate the continent — the rush to the cities, the drudgery of a life filled with the menial tasks necessary for survival. The water must be carried, the crops grown, the wood collected for the fire. The outsider is sufficed with a sense of powerlessness, for here personal will is not as enforceable as in the West.

Then, by one of the strokes of fortune that Africa produces, a car is found a little way down the road in another village, a kind of bush taxi called a *matatu*.

Negotiations begin between the traveler and the owner. A deal seems to be struck, after listless bargaining, but then a woman, not apparently a party to the contract, intervenes, demands a higher price. The traveler, frustrated and no longer fearful of accusations of tribalism, demands to know of the Masai driver: "Are you Masai or Kikuyu?"

The Masai, who herd cattle, carry spears and circumscribe their women, regard themselves as superior to the Kikuyu, Kenya's largest tribe, but the Kikuyu are the entrepreneurs.

"I am Masai," he proclaims, proud enough in his affirmation to accept the outsider's price for the rental of his car. "But," he adds, with a shrug at his powerlessness in these particular circumstances, "she is Kikuyu."

The newspapers in Nairobi vaing against it, but here tribe is a power and a force, and it is here, when the deal is done, the broken motorcycle is loaded and with much hushing, pushing, inexpressible delays and last-minute advice from elders, the car proceeds on its way, toward the city that has become a foreign place, even to the outsider who, on arriving home, will switch on lights and electric stove and bi-fi and take a shower in the knowledge that, in Olooseos, such things are only for the realms of fantasy.

U.S. Says Paisley Can Visit College

Washington Post Service

WASHINGTON — The State Department has granted a temporary visa to allow the Rev. Ian Paisley, a Protestant leader in Northern Ireland, to attend the World Congress of Fundamentalists from July 29 to Aug. 9 at Bob Jones University in Greenville, South Carolina.

Mr. Paisley had his visa invalidated in December 1981 after members of Congress charged that he supported terrorism in the struggle between Protestants and Catholics in Northern Ireland. Two subsequent requests by Mr. Paisley for visas were denied, although in September 1982 he was permitted to attend a funeral in California.

Whose Democracy?

Regarding "Another Try at Exporting Democracy" (IHT, June 29) by Robert E. Hunter:

While "exporting democracy" to foreign political systems that have yet to develop democratic procedures and ideals may be a laudable goal, the Reagan administration is not the one to carry out such a program. To the extent that it has adopted Jeanne Kirkpatrick's ridiculous distinction between "authoritarian" and "totalitarian" governments it has forfeited any claim to understanding political change in countries that are run by closed political elites.

Peaceful, democratic political change requires a degree of trust between rulers and would-be rulers — at least a reasonable assurance that losers in political contests will not be murdered. Such conditions were obviously lacking in El Salvador, as potential leftist candidates in the Reagan-sponsored elections last year realized.

It is useful to remember that Hitler became chancellor by exploiting democratic procedures.

BRUCE HEITMAN, Stavanger, Norway.

About La Pasionaria

Regarding "Living Legend of Spanish Marxism" (IHT, June 30): It is normal to write about peo-

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Killings in Java

For reasons unknown to me, major news organizations are not printing the full story about what is happening in Indonesia. Recent press reports said that 400 people had been mysteriously killed in Indonesia, and the commander of the armed forces was quoted as saying it might be the work of rival gangs. All of this is misleading.

The fact is that the military itself is solely responsible for these killings. Under the guise of cleaning up crime in Java's streets, the military is bypassing Indonesia's constitutional guarantees of due process and right to trial.

In Jogjakarta alone, Indonesia's second city, where I live, more than 250 bodies have found their way to the basement of Sardjito Hospital, a large government hospital, and hundreds of others have reportedly been thrown in the rivers around the city. Some people apparently in the know say the death total exceeds 600 — and this is just in Jogjakarta. The killing is taking place in cities throughout Java.

I have witnessed two of these killings. In one instance six men, all clearly military, dragged a suspect to a garbage dump, drew knives and methodically stabbed him to death while hundreds of people watched from the road above and listened to the man's screams.

In another instance, in the northern part of the city, military men

About Bertrand Russell

Mr. A. Rodenick-Grove (Letters, July 5) writes, "Bertrand Russell's good name will survive." I have been vacationing for three weeks, away from the news. In which issue of the International Herald Tribune has Russell's acquisition of a good name been disclosed?

HANS S. SCHROEDER, Munich.

Letters to the Editor

looked on as a mob they had inspired a man to death.

The victims are accused of being gals, or members of protection rackets. In the early days of this crackdown, about two months ago, the most common method was to arrest them, tell them to run and shoot them in the back. As happens in situations like this, there have been some mistakes made and innocent people have been killed.

Everyone I know in Jogjakarta, whether Indonesian or foreign, has either seen one of these killings or heard a firsthand account. For weeks this has been the hottest topic of conversation in town.

There is no secret. People are being murdered by the hundreds and yet for some reason no one seems to have written an accurate account in the international press.

Name withheld by request.
Jogjakarta, Indonesia.

about Bertrand Russell

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ANNUAL GENERAL MEETING OF SHAREHOLDERS, JUNE 15, 1983
YEAR ENDED DECEMBER 31, 1982

A general drop in consumption and surplus crude oil production, downward moving prices and a trend in producing countries toward a tax system based on bearable levels all weighed on the situation. Other factors such as surplus capacity in refining, shipping, petrochemicals and heavy chemicals further aggravated the situation. Finally, the worldwide agricultural crisis slackened demand for phosphate, sulfur and fertilizers and at the same time the situation for nickel worsened in comparison with 1981.

discoveries during the year in Angola look promising and the decision was taken to begin developing North Alwyn in the British North Sea.

The Donges refinery was completely renovated and a new oil product pricing system should improve the situation in 1993. sum, the Group's long term debt to total capitalization rate remained below 40 % that is within acceptable international credit standing limits for obtaining international credit.

A major event marked 1982: the government entrusted Elf Aquitaine with a major role in the French chemical sector. A substantial proportion of our future operations will then be in this sector.

Exploration and development
In 1982, expenditure on exploration amounted

Exploration and development
In 1982, expenditure on exploration amounted to 6.7 billion francs (0.6 of which were spent in France), and outlays for development to 8.4 billion francs (of which 0.7 in France). Development of the North Alwyn field, located east of the Shetlands, in which Elf Aquitaine has a two-thirds interest, should lead to production start-up in 1988.

Oil and mining production
In 1992, production by the Group (as operator) in oil-rich countries amounted to 26.4 million tonnes of liquid hydrocarbons and 25.8 million cubic metres of commercially viable natural gas.
Sulfur demand sagged as a result of the onsets in the phosphate industry and this led to a decision to reduce sulfur output. Sulfur production from the Lacq field in France was reduced by 100,000 tonnes, while gas production. In 1992, Group sulfur output totalled 4.2 million tonnes with 1 million tonnes for Total and 1.4 million for SNEA.
Sales volume for Societe Metallurgique Le Nickel (SMLN), which EDI Aquitaine has a 50% interest, amounted to 36,300 tonnes, a drop of nearly 15% compared to 1991.
SMLN's 1992 net result should show a deficit of 160 million francs against a 275 million francs deficit in 1991.

Crude oil trading - refining - marketing
In 1982, Eilat's crude oil & resources totalled 19 million tonnes, half of which - 9.5 tonnes - were sold to the Israeli government. The balance was purchased from outside companies, either on the spot market or within the framework of contracts with international companies. Eilat's refining capabilities are 12.5 million tonnes, the difference between this figure and Eilat's actually processed 12.1 million tonnes having been taken from stocks. The balance of 12.5 million tonnes was placed in the international market.

Crude oil transported on behalf of Eilat in 1982 amounted to 18.6 million tonnes, down 6 million tonnes from 1981 and 14 million against 1980.

With respect to refined oil marketing, in France in 1982, 1981 and 1980, the quantities of refined oil which would have reached the 4 billion litres, had stocks not been drawn down. Start-up of the new units at the Donges refinery, which would have had a beneficial effect on the balance, did not take place until the second half of the year. The Valenciennes refinery was shut down and transformed into a tank farm. Refinery operations are redeployed.

In 1982, the pricing system for the low controlled

home heating fuel) was modified to give the oil companies more leeway in setting oil prices within the limit of a ceiling calculated according to a special formula. These new provisions were not however strictly applied until January 1983 and so the formula did not have its full effects in 1982. Crude oil processed in France for E.R. France amounted to 10.5 million tonnes, down 21% in comparison with 1981.

In France, sales of finished products totalled 14.4 million tonnes, representing 22% of the domestic market against 23.2% in 1981. In terms of format, sales thus fell off by 7.8% against a 6% drop in domestic consumption as a whole. This reduction is in line with the Group's marketing policy which is oriented towards the most economically worthwhile products.

Group sales in the European market totalled 6.5 million tonnes.

After consultation with the company, the government decided to make Elf Aquitaine party to the plan for the French chemical industry's recovery. It is planned that the company take over the whole of the halogen sector (chlorine, fluorine, bromine) as well as a majority interest in Ato Chemie and Chloro Chemie. The government has made a commitment to maintain Elf Aquitaine's potential as well as its shareholder's interests.

The company has estimated that it could contribute in the order of 3.5 billion francs over 4 years to such a project and would like to be accompanied in this venture by a minority partner who would add to this capital contribution.

Generally speaking, results in petiochemicals and heavy chemicals again considerably worsened in 1982, especially in the second half. In France, this combined effects of the rise of the dollar and the price freeze aggravated the situation even further, putting domestic producers in a more adverse position than their European competitors. Thus in 1982, cash flow corresponding to SNEA's share in the AirChloro grouping was negative to the amount of 240 million francs. Prospects for 1983 remain gloomy.

fine chemicals and specialty products (SNEAP). Rousselot, Ceca, M&T saw generally satisfactory growth in 1982. This confirmed that companies holding strong international positions in markets for highly sophisticated products can turn in good performances even in difficult economic conditions.

Pharmaceuticals and cosmetics
 The sector kept up a satisfactory level of activity in 1982 with sales of 7.7 billion francs (up 16% over 1981). It should be noted that this growth is for the most part tied to foreign sales which rose by 23% and which now represent 45% of the sector's consolidated sales.

The results for 1982 reflect the effects of a generally indifferent economic situation. 1982 Group consolidated sales amounted to 114.8 billion francs, against 104.4 billion in 1981. Had the interests in Ato Chem, Chloé and SLN entered into account, the 1982 Group sales would have been 119.8 billion.

The results for 1982 reflect the effects of a generally indifferent economic situation. 1982 Group consolidated sales amounted to 114.8 billion francs, against 104.4 billion in 1981. Had the interests in Ato Chem, Chloé and SLN entered into account, the 1982 Group sales would have been 119.8 billion.

The Group's consolidated cash flow, after charge-off of dry hole exploration expense, totaled \$1.13 billion through Q4 1994 (the previous year: \$1.09 billion).

Investments reached the \$1.1 billion figure against the \$1.09 billion target set by the Trustees in 1993. The Group's investments in oil and gas properties in 1994 were \$1.13 billion, compared with \$1.09 billion in 1993. The Group's share of gains in Group net income for 1992 amounted to \$327 million (against \$368 million in 1991). This resulted in a net result per share of 39 francs against 41 francs, the previous year.

Group earnings would have been down even more than that had the Group not benefited from the fact that provisions had been set aside in prior years.

For SNEA, the parent company, net income amounted to \$244 million (against \$205 million in 1993). This figure includes a reintegration into income about \$10 million of the 1993 loss of 1993, and 1994, and 1995, on consideration of litigation with the National Financial OJ Company, an adjustment made possible by final settlement of El Aquidiane's situation in Iran and asset recovery payment.

The Trustees decided to propose to maintain the dividend of the same level as the previous year, that is at 10.50 francs per share of 1993 nominal value. This net dividend to which is added a credit of 1.25 francs payable against presentation of coupon from June 1994.

The term of office of the Chairman, Mr. Chaboudon, expired with this Meeting and a resolution was to be put to the Meeting to renew it. Because, however, of the absence of a candidate, the account of the Meeting, he stood down from office.

Mr. Chaboudon, who was also the Chairman of the group, asked the shareholders to elect, as Chairman of the group, Mr. Michel Percequillo, Head Administrator of the CEA (the French Atomic Energy Commission) and Chairman of the French Atomic Energy Commission.

The proposal, put to the vote, was adopted by the majority.

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ITALY

A SPECIAL REPORT

Election Setback Damages Hopes For the Economy

By John Phillips

ROME — Share values on the Milan bourse plummeted in the biggest one-day drop in history after last month's general elections, raising disturbing questions about the future of the Italian economy.

As the extent of the Christian Democratic setback became clear, the main index fell by 8.5 percent amid panic selling by the Italian business capital traders. As the market read it, the outcome at the polls without a doubt meant that Italy's pressing economic problems would be swept under the carpet once again.

Shares of the Fiat auto company, always an important indicator of confidence, fell by 10 percent. It was the same gloomy story elsewhere, with the Montedison chemical giant's shares plunging as low as 164 and other big companies, such as Olivetti, CIGA and Mediobanca, for a while looking in trouble.

At one juncture, as many as 18 stocks could not be quoted at all. Tuesday, June 28, went down in the history of the stock exchange as the worst day since the crisis of summer 1981 after the indictment of the late Roberto Calvi, then president of the Banco Ambrosiano, and other leading Italian financiers, on charges of massive illegal export of currency.

In the first hour of trading, the Milan market lost nearly a half of the ground gained in the first six months of the year. On Wednesday, dealers began to recover their nerve, sending the index climbing back to 3.7 percent. But at the end of the week share values were still depressed by the political situation and there was speculation about the prospect of another dramatic day on the bourse if wrangling among political parties was not quickly resolved.

Ironically, Italian equity markets had been bullish in advance of the June 26-27 polls, precisely because of widespread expectations of a strong return by the Christian Democrats and a decline in support for the Communists.

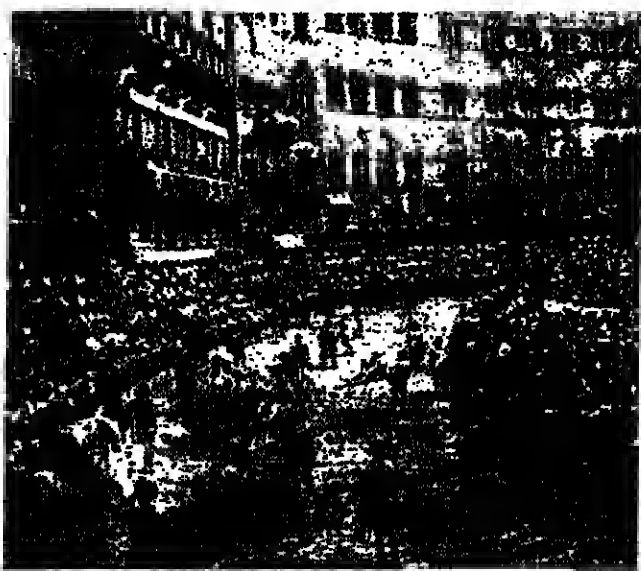
But by Tuesday a pessimistic mood had pervaded the foreign exchange market as well, with the dollar climbing about 23 points against the lira to reach as much as 1,515 in the day's early interbank dealings. There was no mistaking the disillusion in business circles after the first projections showed just how far Italy's political geography was changing.

"Governing Italy will be increasingly difficult as the new premier will have to mediate a split majority," said Vittorio Merloni, president of the Italian employers' federation, Confindustria.

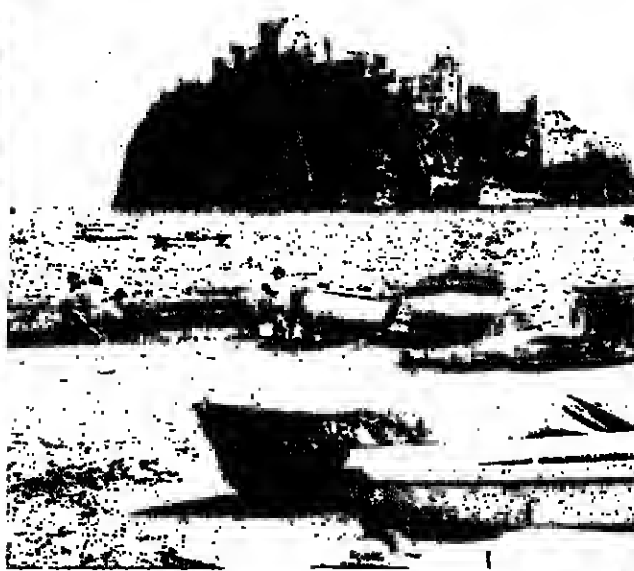
"This happens at a moment in which other European countries rely on more powerful majorities and can make quicker and more decisive choices," Mr. Merloni said.

That depressed viewpoint was echoed by two other top business figures, Francesco Cingano, managing director of the Banca Commerciale Italiana, and

(Continued on Following Page)



A medieval pageant re-enacted in Siena.



Ischia castle viewed from mainland beach.

New Government: Election Brings Summer of Talks

By Henry Tanner

ROME — Post-election negotiations between political parties have only just begun and are expected to last through the summer. Ironically, after an election that was universally interpreted as a "protest vote" against the politicians and parties that have been ruling the country for the last 38 years — an "earthquake" the Rome newspaper *La Repubblica* called the election — the government is likely to look much like its many predecessors. All the old parties and many of the old politicians are expected to be in it.

The ruling Christian Democrats, who admitted having suffered a humiliating defeat, quickly made overtures to Bettino Craxi, the Socialist leader, who also fared much less well than he had confidently expected. The Christian Democrats, after a series of party caucuses, signaled to Mr. Craxi that they would be willing to accept him as prime minister in a new five-party coalition in which they would once more be the strongest partner with Republicans, Liberals and Social Democrats the remaining members.

Other possibilities, if negotiations with Mr. Craxi should eventually fail, would be a transition government under a Christian Democrat or a government of so-called technocrats, meaning less-marked political figures, possibly headed by Giovanni Spadolini, the Republican former prime minister, whose small party made the largest relative gains in the election.

It will be up to President Sandro Pertini, at the end of this month, after a new parliament is convened, to choose a prime minister-designate who will then try to put together a cabinet.

In the meantime, the country is governed by a caretaker government under Amintore Fanfani, the outgoing Christian Democratic prime minister. As usual, the caretaker government is as effective and has as much authority — or perhaps more — as the "real" governments that are under constant pressure from the hickering coalition parties and from parliament.

Labor Minister Vincenzo Scotti, for instance, is deeply involved in all important wage negotiations between the metalworkers' union and industry and there has been no suggestion that his role may have suffered by the absence of either a government or a parliament. The government is acting not only as a mediator but will be a partner in the new contract in the case of the nationalized industries.

The metalworkers have always been the most powerful and toughest negotiators of all Italian workers. An agreement reached with them has always served as a model for other categories of workers and other industries. With contract renewals due every three years, but the deadlines often changed for political reasons, the current negotiations, there-

(Continued on Following Page)

A New Taste for Sports Cars as Terror Fear Ebbs

ROME — For the first time in 15 years Italians are again flaunting stylish and powerful sports cars on the Via Veneto and other traditional haunts of Rome.

Sleek Lamborghinis, Maseratis and Lancias jostle for position with more workaday automobiles in a sign that the wealthy have been reassured by the recent victories against terrorism, culminating in the release of U.S. Brigadier General James L. Dozier from his Red Brigades captors last year. Even the fear of kidnappers, the nemesis of the Italian rich, has receded somewhat after the arrest of hundreds of suspects in a series of nationwide police raids in June. It is no longer dangerous to show you have money.

Encouraged by that change of attitude, Italian sports car manufacturers and designers are expressing cautious optimism that the home market may witness a resurgence of demand this year. For although Italians have been putting their impossible fantasy objects through their paces on the streets more often recently, sales of

sports cars have not fully recovered from the severe blow dealt by the oil crisis of 1973.

Measuring the state of the market is difficult because many companies do not have separate turnover figures for sports and other models, and because it is often hard to say where a sports-style model ends and a family convertible begins. In absolute terms, Italians seem to have an almost insatiable demand for high-speed travel on the road, for example, buying nearly 2,400 Maseratis alone in the first five months of this year, according to figures released by ANFIA, the Italian car manufacturers' association.

But for many companies, even that very high level of domestic consumption has been insufficient to keep them going amid the harsh winds of recession, and more and more have looked to export markets in order to survive. Pininfarina, one of a number of car design and manufacturing companies based in and around Italy's Detroit-style city of Turin, has been exporting 80 percent of its 136-billion-lira turnover. The largest foreign market until this year was the United

States, where Fiat sold and distributed the Pininfarina Spider 2000.

For about 12 months, however, sales of the Spider 2000 and the X-19 sports car made by Bertone have been disrupted in the United States after Fiat's decision not to market the two models there anymore and failure to reach a satisfactory agreement with a U.S. importer.

Executives in both companies said the Fiat decision to sell off U.S. rights on the two cars has raised anxiety about their prospects in what is a key market for the two. "This move was not sought by us," a senior Bertone executive said. Against that background, Bertone is staking new hopes on sales of the Bertone Cabrio, a convertible made from a Fiat Ritmo base, production of which is expected to reach 5,000 this year.

Still a family firm, Bertone employs just 1,350 people and has an average yearly turnover of about 65 billion lire. Its Turin-based neighbor, Pininfarina, also depends heavily on producing

(Continued on Following Page)

Cause for Concern: New EC Agricultural Policy

By Craig Anderson

BRUSSELS — Uncertainty and apprehension must be Italy's sentiments when the country looks at the possible development of the EC's Common Agricultural Policy and Italy's returns from it.

As one of the six founders of the European Common Market 25 years ago, Italy was closely connected with the birth of what has become for some EC and most non-EC governments a detestable sacred cow but which is for other community member states a kind of benevolent guardian angel for Europe's 8 million farmers.

Despite constant cautions and continual attacks both from within and from outside the EC, the Common Agricultural Policy, known as CAP, has achieved many of its initial objectives. This is as true of Italy as anywhere else in the community, with self-sufficiency having been increased dramatically and farm incomes raised well beyond the peasant farmer level for most farm owners.

EC figures show that over the last decade farm incomes have increased in real terms in Italy by between 11 and 15 percent, at a time when inflation and high fuel costs have whittled down the real level of incomes for farmers in most other community countries.

In the first decade during which the CAP was in operation — between the mid-1960s and mid-1970s — farm incomes in Italy rose by more than 50 percent.

In a country that aside from the latest EC member state, Greece, has the largest number of tiny farms employing only one person — until recently more than half the total farms in the

country — this income rise has been crucial on a personal as well as an economic level.

The CAP, however, did not suit Italy's needs from its inception. In 1962, when the original proposals for a common system of support for EC farm goods were made, the important commodities of wine, fruit, vegetables and olive oil were not included.

But in 1966, Common Market arrangements for fruit and vegetables were set up, providing a safety net for producer prices as well as special mechanisms to protect Italian agriculture from cheap imports from outside the community. Later, support systems for wine and olive oil completed the picture as far as Italy was concerned.

Other measures designed to promote farm modernization have also been framed with Italy in mind in an attempt to ease the country's agricultural sector away from subsistence farming toward larger and more efficient farming methods.

Apart from the ups and downs of each year's EC farm price-fixing struggle when the 10 governments meet to set common price levels for the coming year, Italian farmers are reaping the benefits of the basic structures of the CAP together with other projects designed specifically to help Italian agriculture.

Storm clouds, however, are massing on the horizon. For years, countries like Britain and West Germany, the two largest net contributors to the EC budget, have been complaining bitterly about the cost of the CAP, now consuming two-thirds of all Common Market revenues.

The main problem is milk, produced in fast-

flowing abundance in the more northerly member states like the Benelux countries, France, Denmark, Britain and West Germany.

Out of the total agricultural budget of almost \$12 billion a year, roughly 60 percent goes to finance the dairy industry with its half-million metric-ton butter mountain and growing stockpiles of powdered milk. The campaign for cost cutting has turned into a full assault on the CAP as the community approaches bankruptcy. Last year's 11-percent farm price increase, combined with record production levels, meant a bonanza year for farmers. But farm spending by Brussels is running 40 percent over budget for the first six months of this year.

As far as countries like France, Italy, Greece and Ireland are concerned, the simple solution to the lack of funds is to increase member states' budget contributions. But the big contributors argue that any extra cash might simply be sucked into the mouth of the all-consuming farm policy unless the hitherto open-ended support commitments are scaled down.

Although the main problems lie with milk and cereals, of lesser importance to Italy than other so-called Mediterranean products, the EC Commission in Brussels is engaged in a thorough reappraisal of all aspects of the CAP, and Italy cannot hope to escape whatever spending cuts are decided upon eventually.

The other dark cloud, closely linked with these financial worries, is the forthcoming arrival of Spain and Portugal within the ranks of the community. Both countries produce the same type of products as does Italy, and the present

(Continued on Page 98)

Film: Waiting for the Next Wave?

By Robert Wazack

ROME — The age of the "magical western" has passed, *la dolce vita* has not been very sweet in years and the once exciting Italian film industry has become a little dull.

Will Italian cinema revive? Its great age, of course, both artistically and commercially, was the 1950s, when such directors as Fellini, Antonioni, de Sica and Pontecorvo were at their prime. It was also the time of Italy's economic miracle, and thus a time when the country had more confidence in itself than it seems to now. Any true revival will probably have to wait for a coalescence of a great variety of social and economic factors — and this could happen quite soon or, then again, perhaps never.

Consider that two of its biggest preoccupations in recent months have been a 56-day strike by sound personnel involved in dubbing and — following a cinema fire in Turin — how to make movie theaters safer. No one could dispute the fact that labor relations and theater safety are important issues, but somehow something seems to have been lost from the days when Anita Ekberg waded, almost nude, through the fountain of Trevi in the film "La Dolce Vita."

There have been periodic attempts to revive Italy's state-supported production studio, Cinecittà, but without much result. Much publicity surrounded director Franco Zeffirelli recently when he filmed "La Traviata" there, and now (as always) there is considerable publicity accompanying Federico Fellini, who is at Cinecittà completing his latest film, "La Nave Va" ("The Ship Is

Sailing"). But efforts such as these are few and far between. The number of all-Italian films produced in the 1981-82 season dropped to about 110, against 120 in 1980-81 and 140 in 1979-80. For 1982-83, the figure could well drop below 100.

Meanwhile, the appetite for American films continues to grow. A total of 120 American films were shown in Italy last year, 10 more than the number of Italian films. In addition, there were 17 Italian-American co-productions and about 80 non-American foreign films for a total of 327. The audience for these films was 195.4 million, a drop of 9.3 percent, against the previous year's 215.5 million.

The decline in the number of films produced is not being offset by an increase in quality either. Italy is plagued by a series of cynical, crude, poorly made — but highly profitable — comedies. If nothing else, however, they at least have the virtue of bringing to the fore a generation of brilliant new comedians such as Adriano Celentano (currently Italy's highest paid actor), Massimo Troisi and Carlo Verdone.

Producers and distributors like to talk of a "crisis" in the Italian film industry, but a not-very-kept secret is the fact that movie-making in Italy, contrary perhaps to all appearances, is still highly profitable.

"You can earn more profit making films in Italy than in any other country," said Paolo Biondo, owner and manager of International Recordings, a company that does "post-production" work such as sound, dubbing and editing on more than one-third of all films shown in Italy. "One reason," he said, "is low-

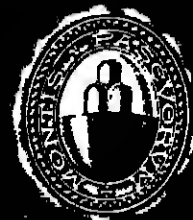
labor costs. Second, and more important, is the fact that Italian audiences don't care about 'finish' and special effects as much as audiences in other countries do. Producers can cut a lot of corners making a movie here and save money doing it."

In spite of the recession, money for producing films is available, often at what amounts to discounted lending rates — which, in Italy, means just under 20 percent — and usually on an upfront, guaranteed distribution basis. The leading private financiers are Mario and Vittorio Cecchi Gori, father and son, who finance numerous comedies. Public money, in addition to coming from the state television network RAI, is available from Sezione Autonoma Credito Cinematografico, known as SACC, a special unit solely for film industry loans within the state-owned Banco Nazionale del Lavoro.

A striking fact about Italian movie audiences is that they are older, in general, than those in other countries. People over 40 still go to movies, and in large numbers — although this phenomenon seems to be changing as Italy becomes more cosmopolitan. The more "cosmopolitan" a country is, the more one is likely to find middle-aged and older people staying at home watching a movie on television rather than going out to a movie theater to see one. The Italian film industry, in fact, is taking steps to accommodate an increasingly younger audience that has grown up accustomed to electronic games and high-quality stereophonic sound.

Much attention was given to the improve-

(Continued on Page 105)



MONTE DEI PASCHI DI SIENA
Bank founded in 1472

	Lit. million
Saving deposits and current accounts	11,905.048
Bonds	1,919.039
Reserve funds	1,474.715
Total available funds	22,890.562
Loans and advances	6,558.335
Security holdings	7,452.975
Net profit	22.551

The Monte dei Paschi Banking Group, which includes:

MONTE DEI PASCHI DI SIENA
BANCA TOSCANA
CREDITO COMMERCIALE
CREDITO LOMBARDO
ITALIAN INTERNATIONAL
BANK Ltd.,

showed, at 31/12/82
total deposits in excess
of \$ 26.4 billion.
Capital resources amounted
to \$ 1.7 billion.



ITALY

Election Brings Summer of Talks

(Continued From Preceding Page)

fore, are decisive for the future of the Italian economy for years to come. The negotiations also go to the core of the central economic issue that divided the last government of Mr. Fanfani and paralyzed the two preceding ones under Mr. Spadolini, who for 18 months was the only non-Christian Democratic prime minister since the 1940s. All three governments were brought down by Mr. Craxi.

While Italian political disputes are almost always conducted in the form of straight-forward power struggles between parties and individuals, the economic issue that divided the three governments and dominated the election campaign is real and increasingly compelling.

Inflation stands at about 16 percent a year, unemployment is rising, the public debt is enormous, the lira has been losing ground and Italian industrialists have been complaining for years that high labor costs and low productivity are making it increasingly difficult for them to compete in the international markets.

In past governments and during the campaign, Mr. Craxi's views on how to deal with these issues were in basic conflict with those of the Republicans, Liberals and the leader of the Christian Democrats, party secretary Ciriaco De Mita.

Mr. Spadolini made himself the spokesman of austerity. He urged swift drastic anti-inflation measures. After the election in June, he was quoted as saying that labor policies — the creation of jobs and wage increases — had to be "subordinated and linked" to a policy of reducing inflation.

Mr. Craxi, during and after the campaign, charged that the medicine prescribed by Mr. Spadolini, the Liberals and Mr. De Mita was so potent that it would "kill the patient."

The fact that the Christian Democratic leadership now accepts Mr. Craxi as potential prime minister is interpreted to mean that the ruling party is backing off from Mr. De Mita's campaign position, because the party has found out that a policy of economic austerity is not popular with the mass of the voters who backed it in the past.

This, in turn, can only mean that if Mr. Craxi becomes prime minister, the Christian Democrats will meet him halfway on economic policy, leaving the Republicans and Liberals to fight the battle for austerity alone.

Apart from splitting any future coalition government from the start, this may well mean that Italy will continue to be the only European country not conducting a policy of austerity, much to the despair of its professional economists, industrialists and business community.

The Communists, the perennial second party behind the Christian Democrats, lost votes fractionally in the election, but because the Christian Democratic loss was so much bigger (between 5 and 6 percent of the vote in the Chamber and the Senate respectively), the gap between the two parties now is narrower than it has ever been since World War II.

If nothing else, this has given Enrico Berlinguer, leader of the Communist Party, who was in a slump before the election, a much-needed lift, and it has increased the Communist Party's influence in the coming economic debate. This is apt to harden the trade unions, which had already accused Mr. De Mita of having sold out his party to the big industrialists and to the business community.

All this will weigh heavily on the new government or, more probably, successive governments, for Italian commentators find it difficult to imagine that the new coalition, whether under Mr. Craxi or not, will be able to last much longer than the average of its predecessors, which was about eight months. When Mr. Craxi brought down the Fanfani government in April and forced President Pertini to call anticipated elections (the next regularly scheduled election was due in 1984), he and his aides were confident that the Socialists would gain 4 to 5 percent more votes than they had in the last national election in 1979. Instead, they made a gain of 1.8 percent, a semi-defeat acknowledged by the party.

If their hope of a large gain had come true, Mr. Craxi would have been swept into the prime minister's role as a commanding figure able to dictate his policies, within the limits of the Italian system. If he becomes prime minister now, by contrast, it will be as a result of one of those many half-hearted compromises that have been the unfortunate norm of Italian politics all along.

Mr. Craxi insisted on new elections now, primarily because he feared that Mr. De Mita's efforts to overhaul the Christian Democratic Party and give it a new modern image would make the ruling party a much more formidable opponent in the future.

Mr. De Mita was not able to complete his project. And while insiders say that he underestimated the strength of Christian Democratic traditions, the most telling reason obviously was that he did not have enough time. The De Mita wing of the party is being blamed for the election defeat.

So far, recrimination within the party has been muted. But a power struggle between the "old" and the "new" Christian Democratic Party is inevitable and may well become the most interesting and important next development in Italian politics.

Election Setback Damages Hopes for Economy

(Continued From Preceding Page)

ciali Italiana, and Ettore Massacci, president of the Alfa-Romeo automobile company, warned that "urgent and unavoidable choices" would inevitably be delayed by the surprising results.

What that means in practice was spelled out rapidly by Giovanni Goria, treasury minister in the caretaker government of outgoing veteran Christian Democrat Amintore Fanfani.

In a press conference on June 30, Mr. Goria said that Italy's runaway public deficits were heading for a massive total of 90 trillion lire this year. Mr. Goria said his efforts to rein in the public-spending borrowing requirement for 1983 would almost certainly be scuttled unless corrective action is taken by the end of July.

Mr. Goria has pledged to hold the budget deficit to 71 trillion lire, the same money level as last year, which would be a significant drop in real terms. He said cuts in spending, worth more than 15 trillion lire, had to be introduced within 40 days if he was to achieve that objective.

Turin's moderate daily, La Stampa, said that the caretaker government of Mr. Fanfani "cannot launch a severe containment strategy," and that "it requires a stable government with full powers."

Other business commentators in the Italian press have charged that the Fanfani government avoided consulting parliament on the overshoot before so as not to tarnish the Christian Democrats' image for the elections.

Mr. Goria, however, put the blame on institutional problems such as an

increase in the deficit of the Institute for Social Security, the state agency that administers the various pension plans, which it is forecast could reach 133.7 trillion lire this year if no action is taken.

"I am worried, both as a minister and as a citizen, whether the new government will succeed in carrying out the provisions made by the Fanfani government that have not been realized," Mr. Goria, 39 years old, said. His concern is shared by many government economists who estimate privately that the budget deficit reached 15.6 percent of Italy's gross domestic product, a record for an industrial nation. Experts agree that it is the major cause of Italy's high inflation, which reached 16.4 percent in 1982.

Although foreign bankers had been skeptical about Mr. Goria's ability to make what they saw as necessary cuts in welfare spending, many Italian businessmen felt the Fanfani government had come closer to getting it right on the economy than any other administration since the 1973 oil crisis.

In January, the 75-year-old premier, with a reputation for toughness, achieved a major breakthrough, a huge roll-back of union power, when his bright young labor minister, Vincenzo Scotti, persuaded both sides of the industry to agree on a cut in the *scala mobile*, the escalator clause in wage agreements cushioning earnings against inflation.

The accord was a watershed. In the past, the unions' stance had been unequivocal with the slogan "*La scala mobile non si tocca*" ("Hands off the escalator") to be seen on banners unfurled by shop stewards at every

(Continued on Page 105)



Lake Como at Fiumelatte.

Tourism: Continued Stability Forecast

By Janet Stobart

ROME — With the holiday season in full swing, both sides of the Italian border are assaulted by the customary exodus of Italian tourists going abroad for their vacations and the influx of foreign tourists who once again choose Italy as their favorite playground.

This year the Italian side of the border will be far less blocked than the West German, Austrian and French sides, for despite the freer currency restrictions regarding money taken abroad, Italians find their devalued lire buy more holiday time at home than abroad.

Last year, of the 50 percent of the Italian population that moved away from home for a holiday, little more than 5 percent crossed the frontier.

The holiday money spent by Italians in Italy totaled \$18.6 billion, against the foreign tourists who spent \$8 billion. After several lean years when Italy's image abroad was plagued by reports of crime, terrorism, communism, earthquakes and avalanches, last year finally brought a period of serenity and comparative prosperity for the tourism business.

Foreign visitors, headed as always by the Germans, 7 million of whom came to Italy in 1982, increased by 11 percent over 1981, and the year closed with a balance of almost \$6 billion. The forecast for this year is one of stability rather than another spectacular increase in the tourist business, but tourism is still first on Italy's list of incomes.

Despite the decision of Pope John Paul II to make 1983 an extraordinary holy year, the tourist trade observers do not foresee larger amounts of foreign currency in Italian treasury coffers. After all, pilgrims do not

spend the kind of money disbursed by tourists. In fact, by Easter this year a drop of 6.6 percent over last year in foreign tourists staying in hotels was already registered and there was also a considerable decrease in foreign travelers who had booked their Italian vacation in advance — 13,000 fewer than last year.

"It's too soon to make gloomy predictions for the final year-end tourist balance," said Franco Paloscio of the information office in the Italian tourist board. "And we must take into account that while Italy increased her foreign tourism by 11 percent last year there was a decrease in world tourism of 1.4 percent, so if we keep an even keel this year we are doing well."

The foreign visitor in Italy will be able to use gasoline coupons for car travel this year but will find average price increases of between 18 and 30 percent over last year's air fares, railroad tickets, hotels and package tours.

While most of Italy's expected 50 million foreign visitors will accommodate themselves in cheap or medium-priced lodgings and the sleeping bag brigades that had down in the streets of Florence and Venice every year will probably increase, a blow has been dealt to the quality-seeking sector of tourism.

French travelers, at 5 million last year, second only to the West Germans, will diminish in numbers this year due to the currency exports restrictions limiting them to \$415 a year. The French are traditionally upper-class tourists in Italy and the loss of French currency this year is estimated at about \$900 million.

A New Taste for Sports Cars Appears as Terror Fear Ebbs

(Continued From Preceding Page)

cars for larger companies whose mass production methods are incapable of the extremely high level of craftsmanship associated with the most exclusive Italian automobiles.

Fiorinaria produces a Gamma coupé for Lancia and does extensive business for Ferrari. The latest project to be launched by Fiorinaria is the Spider Europa, which combines a Volume X engine made with Lancia technology and the basic chassiswork of the old Spider 124.

The small sports car companies have to lean on the large automakers in order to hold off tough foreign competition such as that posed by West Germany's Porsches, more than 500 of which were sold in Italy in the first five months of this year, according to the ANFIA figures.

The big concerns, while farming out production of some models, have always maintained a presence in the sports-car market with models produced in their own plants. A Fiat executive

estimated that the giant Italian auto manufacturer produced about 28,000 sports cars a year for domestic consumption of which the highest sellers are the Ritz 105 and the Abarth 112.

Sales of those two lines reached a total of about 6,500 units each in 1982, Fiat said. And both lines are also selling well in France, Switzerland and West Germany. Fiat and Lancia together exported about 38,000 sports cars in Europe in 1982, including 11,000 units of the 127 Sport and 9,000 of the Ritz 105, the company said.

Fiat announced last week that it would raise prices of all Fiat, Lancia and Autobianchi models by an average of 2.5 percent, effective July 11.

Part of the relative health of the Italian sports-car industry, many businesspeople said, is due to the drive and energy of the colorful figures in the presidential chairs of the best-known manufacturing companies. Sergio Fiorinaria, for example, is both president of the

powerful local industrialists' association in Turin and a member of the European Parliament in Strasbourg representing the Italian Liberal Party.

The most talked about of them all is perhaps Giorgio Giugiaro, doyen of designers of sports and other cars, whose Ital-Design Company is hailed as the leader in Europe and, perhaps, the world. With his angular, functional lines and his endearing habit of sketching all the time, even while talking to strangers, Mr. Giugiaro soon made a name for himself in the 1970s rendering the more voluptuous curves of the 1950s and 1960s obsolete.

Despite a reputation as a prima donna who does not take kindly to clients suggesting modifications to his prototypes, hardly a sports car company in the world has been able to do without him. Aston Martin, Ferrari, Maserati and Simca are just a sample of the concerns that have called on his services.

—JOHN PHILLIPS

Milan Trade Fair

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FROM 14th to 23rd APRIL, FOR THE GENERAL TRADE FAIR. ALL THE YEAR ROUND, ON THE OCCASION OF ITS 80 SPECIALIZED TRADE SHOWS

TRADE EVENTS SEPTEMBER-DECEMBER 1983

SEPTEMBER

September 1-4
AUTUMN MACF '83 - International exhibition of household articles, glassware, ceramics, gift articles, silverware, goldware, precious stones, semi-precious stones, hardware and tools

September 2-4
SUMMER MIAS '83 - International market of sport articles and camping equipment

September 5-7
ANTEPRIMA-IDEAMAGLIA - Women's collections - International knitwear exhibition

September 8-10
INTIMO DOMANI - Underwear collections

September 11-13
AQUARIUM - Collections for the sea

September 10-15
8th EUROCEC - International lighting exhibition

September 16-20
23rd Italian furniture exhibition

September 21-25
EMU - International exhibition of office furniture

September 26-30
SMAU '83 - International exhibition for the office: informatics, telematics and communications systems, machines and furnishings for the office

September 30 - October 4
MODIT - International exhibition for women's fashion collections

October 5-7
MILANOVENDEMODA 29 - Bride Italy

OCTOBER

October 2-6
MILANO COLLEZIONI - Presentation of spring/summer collections '84

October 10-18
ITMA - 9th International exhibition of textile machinery

October 28 - November 7
48th MIFED - International film, TV film and documentary market

October 29-31
12th INTERSAN - International exhibition of technical and sanitary orthopedics, sanitary articles, surgical instruments, hospital equipment, physiotherapeutic appliances, cosmetics and sanitary articles for early childhood

NOVEMBER

November 3-7
44th MIPEL - Italian leather goods market (international exhibition)

November 4-8
EXPO COMMERCIO '83 - 18th International exhibition of commerce equipment

November 9-13
EXPO TURISMO '83 - 18th International exhibition of equipment for tourist and receptive activities

November 14-18
SIRC '83 - 8th Italian exhibition for collective restoration

November 19-23
10th International exhibition of confectionery and ice-cream products

November 24-28
EBE - 13th European drinks exhibition

November 29-31
SIFRAL - 13th Exhibition of food products

December 1-5
EUROFUTURA - 3rd SANE - Exhibition of herboristery, natural food and beauty culture

November 12-14
BEAUTYSHOW - 5th Exhibition and conference of hair-style, beauty, perfumery

November 15-22
3rd SFORTEC - Exhibition of technical sub-supplies (international exhibition)

November 23-26
MAC '83 - 23rd International exhibition of equipment and appliances for the chemical industries and for laboratory research, analysis and tests

November 27-31
SIMES - 11th International wine & bottling machinery exhibition

November 28-29
48th International exhibition of cycles and motorcycles

November 30 - December 4
LA MIA CASA - 14th Furnishing exhibition

DECEMBER

December 1-5
6th International exhibition of "DO IT YOURSELF"

December 6-9
ESMA-EUROTRICOT - European knitwear exhibition

December 8-12
EXPO DETERGO '83 - Exhibition of equipment, services, products, and accessories for laundry, drycleaning, ironing, textiles, cleaning, and allied wares in general

The Milan Fair Organization disclaims all responsibility for any changes in the dates announced as above.
Information: Fiera di Milano, Largo Domodossola 1, 20145 Milano (Italy)
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RAS

RIUNIONE
ADRIATICA
DI SICURTA'
MILAN - ITALY

The Annual General Meeting of RAS-Riunione Adriatica di Sicurtà was held in Milan on 29th June 1983 and adopted as Ordinary Business the Company's Accounts for the year ended 31st December 1982, reflecting a net profit of Lit. 118 bn.

A dividend of Lit. 1,600 per share (1981: Lit. 1,400) was declared, which will be payable as from 19th July 1983.

In their Report, the Directors state that the Company's 1982 figures are not directly comparable with those of the previous year, mainly because the 1982 Accounts do not include figures for the French and Austrian Branch Offices which were transformed into locally incorporated Subsidiaries.

The comparison is instead homogeneous for direct insurances written in Italy, where there was substantial growth in premium income, with increases of 28% being achieved in the Life Branch, 29% in the Accident Account, 30% in the Marine Account and 19% in Fire.

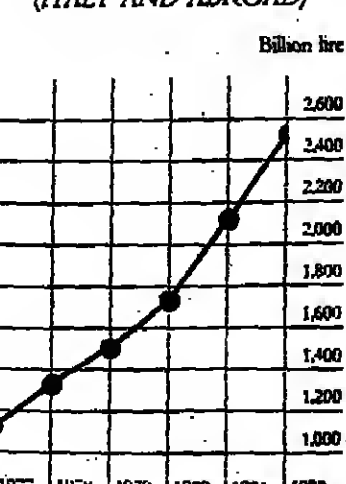
At Lit. 1622 bn. (US \$ 118.4 m.), RAS' solvency margin exceeds the minimum legal requirement by Lit. 61 bn.

As Special Business, proposals were adopted to split each of the Company's Lit. 10,000 par value shares into two Lit. 5,000 shares, and to increase its share capital from Lit. 64,800,000,000 to Lit. 87,480,000,000 by means of a combined scrip and rights issue. The merger of four wholly-owned real estate subsidiaries into RAS was also approved.

Directors were elected to serve for the forthcoming three-year period, and at a Board Meeting held after the Annual General Meeting, Mr. Ettore Lolli was re-elected Chairman and Mr. Carlo Pesenti Deputy Chairman, while Mr. Umberto Zanni was re-appointed Managing Director.

HIGHLIGHTS OF ACCOUNTS
RAS ONLY, DOMESTIC AND FOREIGN BRANCH OFFICES
(in US dollars)

	1982
Premium Income	740,204,387
Investment Income	112,233,953
Claims, Maturities and other Benefits paid	422,885,309
Insurance Reserves, Non-Life Branch	663,549,073
Insurance Reserves, Life Branch	451,687,826
Life Sums assured	3,743,524,728
Share Capital	47,299,270
General Reserves	189,334,845
Profit for the year	8,666,492

PREMIUM INCOME OF THE
RAS GROUP
(ITALY AND ABROAD)SALES OF THE RAS GROUP
Premium income breakdown in
1982 (in US \$)

RAS (in Italy and abroad)	740,204,387
Other Italian Group Companies	144,177,901
Foreign Group Companies	949,601,570
Total premiums	1,833,983,858
RAS Group, Life Business	
Total Sums assured	\$ 8,792,556,234

ITALY

Industry: Signals Of Serious Decline

ROME — For Italian industry, the bad news all arrived in April. Overall industrial production in April fell 14.2 percent, against a record April 1982. This followed production drops of 6 percent in January, 8 percent in February and 8.2 percent in March.

It was also in April that the country's four-party coalition government fell and that early elections were set for June, virtually guaranteeing months of political instability and threatening Italy's long-awaited economic recovery.

In addition, the first wave in what promised to be a long series of bitter strikes over three-year contract renewals was seen in April. A three-sided agreement over wage indexation among industry, government and labor, which had so carefully been put together last January, began to show signs of unraveling. Finally, at the end of the month, Italy officially registered its 36th straight month of recession, marking a three-year anniversary of sorts.

"I haven't seen a situation this delicate for Italian industry in the last 23 years," said Mario Boelli, president of the Italian textile industry association. Unofficial reports indicate that industrial production has since recovered some ground in May and June. Another positive sign is that electricity demand, widely regarded in Italy as an indicator of industrial strength, rose 1.1 percent in June, the first such rise in the last nine months.

These factors, however, are more than outweighed by negative ones. Following the June 26-27 elections, Italy is still without a government and is likely to remain that way indefinitely, so complicated — and so unexpected — were the results. Without a government, any hope of forging a new economic policy for industrial recovery is gone. And with the August vacation season approaching, the setting of a new economic policy — not to mention the constitution of a new government — could be delayed, until well into the autumn.

One economic think tank, Promoteia, in Bologna, has already predicted that Italy's gross national product will decline between 0.5 percent and 1 percent for 1983 after a fall of 0.3 percent in 1982. Predictions originally had been that it would rise between 0.5 and 1 percent. Moreover, most analysts think that Italy will fail to reach its goal of reducing inflation to 13 percent by the end of the year, and that it will probably stay at the present 16 percent.

Not much progress expected in reducing runaway government deficits. Meanwhile, industry's contract re-negotiations with the unions, which affect 1.5 million workers, have reached an impasse and major new strikes are considered likely.

More optimistic estimates are given by ENI (Ente Nazionale Idrocarburi), Italy's giant state holding company for energy and chemicals. GNP should grow by 0.3 percent in 1983, ENI estimates, and then by 3.2 percent in 1984. The net fall in industrial production for this year will be only 1.5 percent, followed by a rise of 3.3 percent in 1984. ENI believes that the government's statistics relating to industrial production for the first half of this year are significantly exaggerated and do not take into account several major losses in the Italian economy.

As a state-owned company, one of ENI's purposes, company sources said, is to serve a counter-cyclical function by stimulating the economy at times of recession — such as now — through well-targeted investments. An example is the construction of the 1,560-mile natural gas pipeline from Algeria through Tunisia and Sicily onto the southern Italian mainland.

ENI said its 1983 investments in Italy will not be reduced — although some foreign investments will. Its activities, sources said, should go forward as planned, even in the absence of a government. The one exception is the chemical sector, where a government is needed to coordinate and give final approval to an agreement signed by ENI and privately owned Montedison.

Italian industry had been counting on help from two different sources, and by now both of these hopes have faded. First, it was thought that economic recovery in the United States would eventually translate into recovery in Italy as well, but it now appears that Italy, like France, will fail to get any assistance from a resurgent U.S. economy because of built-in structural weaknesses and ineffective government policies.

Secondly, the combination of the drop in oil prices and the devaluation of the lira against other European currencies last March was expected to give Italian exports a boost. It has not, and, experts think, probably will not. Exports of clothing, shoes and furniture, for example — traditionally



Final body-welding of the Fiat Uno.

Concern Over New EC Agricultural Policy

(Continued From Page 75)

10 EC governments have been embroiled for many months in a series of grueling negotiations in an effort to work out a new policy for Mediterranean products prior to Spanish and Portuguese accession.

The aim is to set up a system that would provide elements of support without stimulating the production of surpluses — as has been the bitter experience with products like milk and cereals — but the issue has so far defied solution.

Some experts believe, in fact, that it is impossible to have a support system that does not encourage over-production and they forecast that the EC milk lake could soon be dwarfed by lakes of wine and olive oil produced in Italy, Greece, Spain, Portugal and southern France.

As the community struggles with this conundrum, the pressure for greater protection against external competitors has increased. Italy has been one of the states in the forefront of the battle for tighter tariff controls and "safeguard clauses" in order to counter-balance the impending arrival of Spain and Portugal

with increased curbs on imports from North Africa and Israel.

It remains to be seen how successful Prime Minister Margaret Thatcher of Britain and West German Chancellor Helmut Kohl will be in turning the screw on agriculture, but most governments realize that the community could soon end up broke and politically bankrupt if limits on farm spending are not imposed soon.

Because of the underdeveloped nature of Italian agriculture, against other areas of the community, the country will be sheltered from some of the worst ravages of the expected spending purge but it will not emerge unscathed.

The future development of Italian agriculture will then depend on the shape of the Mediterranean policy adopted by the 10 in order to allow the future 12-nation community in function efficiently but economically. But it seems difficult to imagine that with all the financial stringency and the EC's expansion southward that the golden years of Italy's relationship with the CAP can continue.

three of Italy's strongest export sectors — have declined between 10 and 12 percent in volume in recent months. Whatever gains Italy has realized because of lower oil prices and devaluation have been offset by the dollar's continuing strength against the lira.

Overall operating capacity in Italian industry stood at 90 percent in April 1980, when the current recession began. By the end of 1982, it had fallen to 82 percent. By the end of April of this year, it had sunk to a little more than 70 percent.

The impact has been felt in all industrial sectors, although in some worse than others. Considering "traditional" industries, steel production was down 24.6 percent over the first four months of the year, auto sales declined 15 percent in April alone, and chemical production had dropped 7.6 percent. Declines in other industries over the first four months were registered in food (1.2 percent), textiles (10.4 percent), minerals (11.4 percent) and clothing (11.8 percent). In the important machine-tool industry, where Italy ranks second in Europe, domestic orders are down 32.5 percent and export orders 26.7 percent. Even in the arms industry, where production often holds its own during a recession and where Italy ranks fourth in the world among OECD nations, production has dropped off considerably.

One of the few bright spots in Italian industry is Fiat, which has achieved a turn-around in its bread-and-butter automobile division by

cutting jobs, installing robots, spending money on necessary investments and developing an extremely cost-conscious production system. By reducing costs in a declining market, Fiat is beginning to look toward making a healthy profit.

One of the reasons for Fiat's success, analysts feel, was its ability to stand firm against union demands during a 1980 strike, a situation that led to the now legendary march of 40,000 Fiat workers through the streets of Turin in defiance of the unions asking to return to work. Another bright spot in Italian industry continues to be the small and medium-sized companies, often family owned, in northern Italy. Active in many sectors, including even such industries as steel, normally reserved only for large corporations, these companies have been successful because they are extremely adaptable to fast-changing market conditions and because they are small enough to be able to let workers go or to shift them to other positions when necessary without facing union opposition.

While the unions themselves recognize that layoffs and job shifts are necessary to structural reform and industrial recovery, there is a lack of consensus over how this can be done. There is no consensus between unions and industry, between the unions and government, between state and private industries, between different regions and between the unions themselves. And, in the meantime, there is no government either.

Italian industry may have to wait a while yet for some good news.

— ROBERT WAZEKA

New Fortune-Builders Share a Talent For Fast Moves in Finance Market

ROME — Italy's industrial pioneers — among them Fiat, Pirelli, Olivetti, Zanussi, Buitoni — are still very much a part of the nation's economic life.

But in recent years a variety of bright newcomers has arrived, particularly in the fields of real estate and finance. One explanation for this is that while the inflationary thrust set off by the oil crisis of the early 1970s has had far-reaching negative effects for industry, it has facilitated those able to make a living through use of the financial markets and involvement in the growing tertiary sector.

Over the last few years several new fortunes have been built by men with no solid industrial experience behind them. What Silvio Berlusconi, Giuseppe Cabassi and Orazio Bagnasco have in common — other than sharing the contemporary financial limelight — is a meteoric rise in finance that has its origins in gigantic real estate operations of one type or another.

Silvio Berlusconi, 45, from Milan, began as a contractor, went into real estate and recently into publishing and the rapidly developing commercial television sector. Mr. Berlusconi's first major coup was the construction and sale of "Milano 2," a landscaped modern satellite city outside Milan that houses more than 10,000 people.

Using his holding company Fininvest, Mr. Berlusconi is engaged in attempts at finding his current real estate project, "Milano 3," apparently with somewhat less success. But his first venture into commercial television, a private station called Telemilano that began operating in 1976, has now become the nucleus for the

"Channel Five" network that now has a larger TV audience — and the advertising revenue to go with it — than the second (and smaller) channel of RAI, the Italian state television network, and as of the latest statistics released early this month, more spectators than RAI's first channel four days of every week.

As if this was not enough, Mr. Berlusconi — who had no previous publishing experience or interests — has purchased at least a third of the conservative Milan daily *Il Giornale Nuovo* and set up a new network, RETE 10, that has bought the rights to Italia Uno, a second popular private TV network that had been established by veteran publisher Edilio Rusconi.

Late last year insiders were predicting that the two Berlusconi networks together could this year count on between 250 billion and 400 billion lire of advertising. Mr. Berlusconi's chances to reach this record were further improved last month when he concluded a deal to buy 52 percent of Sorrisi e Canzoni TV, Italy's single most popular television magazine from the heavily indebted Rizzoli publishing company.

Giuseppe Cabassi is another type of mover and shaker. Milanese, now 54, he is known for his ability to transform the vast real estate inheritance left him by his father, who owned a series of sand quarries outside Milan, into an empire of financial interests that ranges from insurance (six of Italy's top companies) and stocks, to hotels, tourist villages and services.

In 1979, Mr. Cabassi emerged with the controlling interest in Rinascente, the major Italian department store chain.

Last year Mr. Cabassi was frequently mentioned as a possible purchaser for the Rizzoli Milan daily, *Corriere della Sera*, but negotiations appear to have come to a standstill.

But Mr. Cabassi's major project is Milanofiori, a commercial center being constructed at Assago on the Milan-Genoa autoroute that is expected to become headquarters for scores of major Italian companies as well as for the Italian world trade center being sponsored by CONFINDUSTRIA, the Italian national manufacturers' association. His major problem, insiders say, is liquidity and this could be greatly eased if land values for the MILANOFIORI area continue to rise.

A third newcomer is Orazio Bagnasco, a 56-year-old financier originally from Genoa whose current financial empire got its start in 1969

with the establishment of a Swiss-based mutual fund (until this year mutual funds were not legal in Italy) centering on real estate investment and leasing.

Mr. Bagnasco's then unequalled brainchild was the creation of a network of about 1,200 door-to-door salesmen who, selling his fund, were said to collect between 100 billion and 150 billion lire a day from Italian family savings.

Like Mr. Berlusconi and Mr. Cabassi, Mr. Bagnasco first attracted major public attention when he made a conditional offer to buy up the assets of the collapsed Caltagirone real estate empire in the late 1970s. Then, in 1980 he used his holding company, FIMPAP, to stage what has been termed a brilliant financial operation that left him with a controlling interest in the CIGA chain of Italian luxury hotels.

Vice president of the Banco Ambrosiano until shortly before its collapse after the disappearance and subsequent murder of bank president Roberto Calvi last year, he also purchased 44 percent of Valtur tourist villages from Fiat. His latest coup was authorization in early July by CONSOB, the Italian securities and exchange commission, for the publication of offer documents for two new Italian mutual funds.

All this is not to say, however, that the only new fortunes being made in Italy these days are financial. Several new industrial empires have also been constructed by relative newcomers.

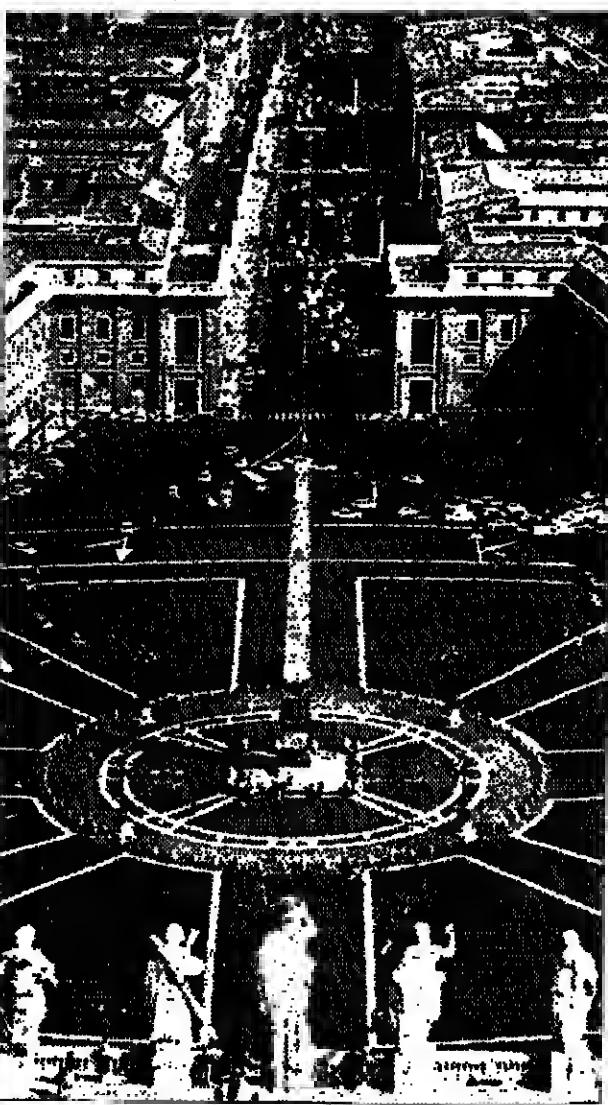
One example is that of the Benetton family. In 1966 the four Benetton siblings — Luciano, Giuliana, Gilberto and Carlo — began a small knitwear company that over the years has mushroomed into an industrial operation that at last count involved the annual production of more than 20 million wool and cotton sweaters and pullovers, seven million pairs of pants and yearly sales of more than 400 billion lire.

The Benetton's seven trade marks — the best known are Benetton and Jean's West — are sold throughout the world in more than 2,000 franchised stores.

Another force that must be reckoned with is Calisto Tanzi, the 44-year-old head of the extensive Parmalat empire. Mr. Tanzi's long-conservation milk and whipped cream, his yogurt, dairy desserts and well-packaged juices are now sold throughout the world, for an annual turnover of close to 500 billion lire.

— SARI GILBERT

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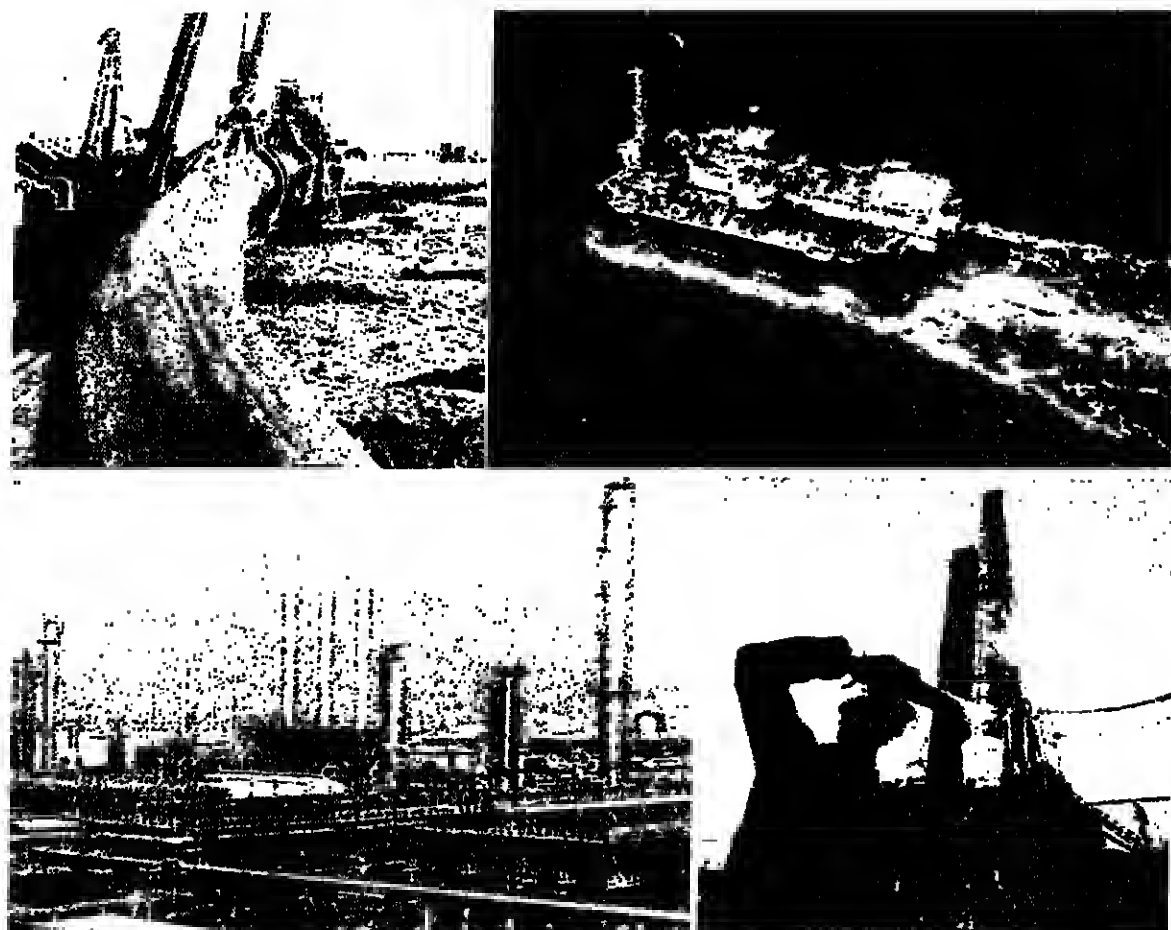


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Companies of the ENI Group are always working towards this end in all continents of the world.

Today, over one third of the total revenue of the Group is derived from sources outside Italy through the supply of goods and services, many of which, due to their advanced technology, have been incorporated into the industrialization and development plans of many countries and which have also helped Italian products to penetrate those markets.

ENI Group companies are involved in all aspects of the energy sector, including the chemical industry, engineering and services, mechanical manufacturing, textile machinery and textiles, along with mining and metallurgy.

In some of the sectors, such as engineering and services and mechanical manufacturing, Group companies are more heavily involved in international projects than in the Italian domestic scene.



Agip AgipPetroli Snam AgipNucleare AgipCarbone Samim Enichimica Snamprogetti Saipem NuovoPignone Savio Lanerossi Soffid Hydrocarbons Int. Ho.

ITALY

Hidden, Illegal Economy Bolsters Gross National Product

By Daniela Iacono

ROME — Giovanni, a clerk at the draft board, did not seem like much of a worker. He habitually came in late, left an hour early and took daily coffee breaks that looked more like business lunches.

But Giovanni — not his real name — is really what anyone would call a workhorse, who puts in an average of 12 hours a day at three jobs. In the morning, he clocks in at his official job at the draft board, on which he pays taxes and receives ample social benefits. Because of Italy's powerful unions and stringent job protection laws, chances are he would never be fired even if he did not do another stroke of work throughout his career.

In the afternoon, Giovanni works as an accountant for a small shop in Rome, and in the evening he sells tickets at a local movie house — both off-the-books jobs on which he pays no taxes. Giovanni is one of an estimated 6 million Italians who regularly beat the system in Italy, either by working at two, three or four "second" jobs or by toting away at jobs and industries that just do not exist on paper anywhere.

Italy's "submerged economy" of moonlighters working long hours at various jobs or producing goods in a myriad of small workshops in their homes, garages, cellars and even kitchens, is costing the Italian government millions of lire every year in unpaid taxes. But as Italian economist Luigi Bruni said, the submerged or invisible economy is "Italy's salvation." It allows millions of people like Giovanni to make ends meet, adds tremendously to the national product, enables Italian businesses to fight off Third World

competition and restores fluidity to the country's otherwise stagnant job market.

A recent conference of economists in Rome concluded that the invisible economy, if counted as part of the country's production, would raise Italy's gross domestic product by at least 25 percent. Franco Ferrarotti, a sociology professor at the University of Rome who heads a study on underground workers, estimated that the submerged economy was as high as one-third of the country's official gross domestic product, put at \$337 billion in 1982.

Other examples of economy *all'italiana*: The province of Naples is said to be the largest exporter of leather gloves in the world, exporting an estimated 5 million pairs a year, although as Mayor Maurizio Valenzi pointed out, there is not one glove factory in the area.

An estimated 90 percent of the world's ski boots come from the northern Italian town of Montebelluna, even though, again, no officially registered boot factories exist there.

In Lumezzane, a small community in the foothills of the Dolomite mountains, large mechanical concerns dole out unregistered work to small family-run cottage industries. The larger unit usually subcontracts to a small workshop some specific job that is economically unfeasible for the larger concern to integrate into its production. In many cases, the larger workshop even provides the necessary machinery for the smaller unit, which is often run by an employee of the larger plant, working in his free time.

Benetton, the major Italian knitwear and casual clothes maker, officially employs about 1,600 people,

but it gives work to an additional 10,000 all over northern Italy who manufacture at home or in small workshops to the designs and standards set by the bigger company.

Several ceramics factories in Rome, which manufacture some of Italy's world-renowned tiles, have been known to change address overnight, moving from one remote corner of Rome to another to escape fiscal detection.

But employers and employees alike seem content with the situation. "Everyone benefits," said Francesco Peddelay, a stockbroker at the Bank of Rome. "The owners don't have to pay steep social benefits and the illegal workers don't pay any taxes. You stroke my back, I'll stroke yours is the system."

"I'll always work illegally," said Pino, a 26-year-old "unemployed" Roman who has been working since he was 15. "You get paid more, you get to keep all the money and it's easier to move in and out of jobs."

The only apparent loser in the arrangement is the Italian exchequer — but even there benefits are had.

Since the European Economic Community regional development fund was first established in 1975, Italy has received more than \$2.4 billion — the largest of any member country. Italy receives some of the lowest interest loans available from the European Development Bank and is one of the largest net gainers in terms of budget contributions against aid received from the community. It is also one of the largest recipients of agricultural subsidies. Italy's traditional plea for aid would be radically changed if the submerged economy was taken into account.

When it is considered that Britain's gross national

product is roughly equivalent to Italy's official GNP figures and Britain does not have the same flourishing underground economy, the startling conclusion is that Italy is a far richer country than Britain. "The EEC in Brussels is very unhappy about the situation," said Mr. Ferrarotti. "They know Italy is much wealthier than it looks on paper."

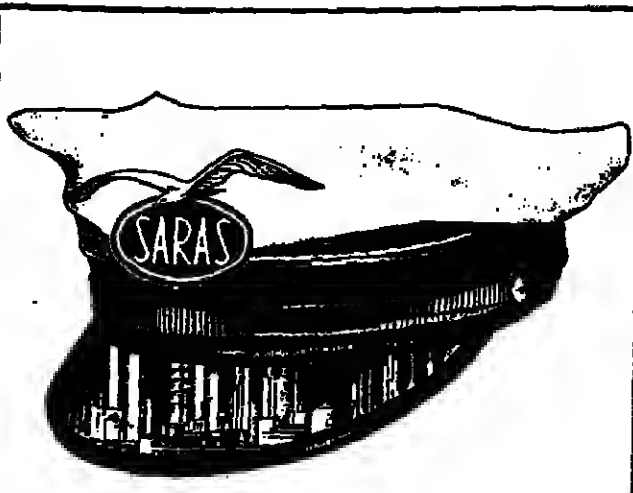
The growth of the moonlight economy has been traced to the late 1960s when Italy's industrial north was torn by labor strife, which started a wage explosion that blunted the competitive edge of many big companies. Employers pay about 50 percent of a worker's salary in social security contributions each year.

Mr. Ferrarotti said he believed the situation will slowly change. "The young people are really paying the highest price for this situation because they just can't get that first job; only people who already have an official job can get work," he said.

He said Italians, who are reticent about their activities, are also tired of "living clandestinely."

They want to come out of the catatonic state. Customs and tax officials have recently stepped up their campaign against tax evasion. A new law requires all Italian businesses to buy new, expensive cash registers and provide proof of payments for value added tax. This law will eventually extend down to the lowest Italian vendor, including street vendors, barbers, beauty parlors and cobblers.

But most observers believe that this regulation, like hundreds of others before it, will be regularly circumvented and ignored by most Italians and that Italy will continue to bubble energetically beneath the surface.



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Banking: An Industry Continues to Modernize

By Robert Wazeka

ROME — The modern banking system, as it is known in the Western world, originated at the Banco di Rialto in Venice in 1587 — and in Italian banking nothing has changed in the 350 years since.

This joke is heard often in Italy, and it is easy, on the surface, to understand why. Walk into almost any Italian bank and you will notice an absence of queues, a crowd of angry people and a mass of bank employees sitting around doing nothing or talking or walking endlessly back and forth to get incomprehensible forms stamped and signed and filled in. The simplest transaction, such as cashing a check, can easily take 45 minutes.

Open an account and you will discover that the interest rate you receive is negotiable. Deposit a check you have received from another party, even from the same bank, and you will discover that you may have to wait weeks before you can write a check against it for cash. Fees must be paid for the most routine of procedures, such as receiving a simple statement of your account. Banks, you will find, are never open in the afternoon or on Saturdays. It is easy to see why only 56.5 percent of Italians have a checking account.

But appearances here are deceiving. Italian banks are more efficient and are changing and modernizing faster than many people realize.

The chaos that one encounters in the public areas of banks inaccurately reflects what is going on behind the scenes. Several studies, for instance, have shown that when all banking activities are taken into account, Italian banks rank about in the middle on various scales of efficiency in comparison with banks in other countries. In terms of profitability, they rank close to the top. And Italy's central bank, the Bank of Italy, is one of the most respected in the world.

Umberto Agnelli, vice president of Fiat, said in a recent article that banking was the only sector of Italian business to be generally well-managed.

Long criticized for its resistance to change and for its unwillingness to allow new competition, the Italian banking system has begun to show some flexibility. This is best illustrated by the Bank of Italy's decision, announced on July 1, to remove the credit ceiling or *massimale*, which limits the total amount of money that banks can lend.

The credit ceiling was first imposed 10 years ago. Each year the Bank of Italy would allow total credit availability to increase only by a certain specific percentage, always set below the anticipated inflation rate. The ceiling, in fact, was regarded as a fiscal policy tool for helping to contain Italy's high inflation.

The timing and the manner in

which the ceiling was lifted, however, reflect the traditional caution of the central bank. The action occurred at a time when loan demand was low enough already to fall below the present allowable credit ceiling. This made a sudden swing in credit demand, which could potentially fuel another round of inflation, unlikely. Still, the bank took the additional step of calling in leaders of about 20 major Italian banks. Together they worked out an informal agreement, only days after the announcement that the ceiling had been removed, to hold credit expansion to 14 percent through the end of 1983. This would be just under the anticipated yearly inflation rate of 16 percent.

Another area in which Italian banking is beginning to change is in automation. By October, a new Bancomat automatic teller system — a first for Italy — is expected to be operative in 270 banks out of a countrywide total of 1,079. The system should be operative in all banks in Italy by October 1984.

The Italian Banking Association (ABI) is spending \$14 million to advertise the new system. More importantly, Italian banks, spearheaded by ABI, are moving toward the implementation of a comprehensive national system of electronic banking.

"There is no question that Italian banks have lagged far behind those in other countries over the last 20

years in modernization," said one Italian banker. "But we are hoping now to turn that to our advantage by installing a completely new system all at once — the way defeated countries like Germany and Japan did with their steel industries after World War II. In steel, they are actually ahead of the United States, which was not forced to turn to such wholesale modernization. We hope to be able to do the same in banking: to jump ahead of other countries in one big step."

Italian banks have recently come under criticism from both unions and industry for being too concerned with such things as automation and profit-taking, and not concerned enough with playing the central role they should be playing in the country's economic recovery by lowering interest rates. In March, ABI announced that the prime rate would be lowered to 19.5 percent from 20.0 percent. On May 3, it was brought down still further, to 18.75 percent. In April,

CONTRIBUTORS

HENRY TANNER is a political correspondent on the staff of the International Herald Tribune.

CRAIG ANDERSON is a Brussels-based economics specialist who frequently contributes to the International Herald Tribune.

JOHN PHILLIPS and ROBERT WAZEKA are Rome-based financial journalists.

SARI GILBERT, who contributes to The Washington Post and other U.S. publications, covers southern Europe from Rome.

JANET STOBART is a journalist based in Rome. DANIELA IACONO is a Rome-based correspondent for United Press International.

meanwhile, the Bank of Italy lowered the discount rate to 17 percent from a previous 18 percent. This means that the present gap between the prime lending rate and the discount rate — the rate banks themselves pay for borrowing — is only 1.75 percent, against 3.5 percent in January 1982.

This, bankers argue, is proof that they are doing their best to get rates as low as they can while still making profit. They maintain also that

the gap between the present prime rate (18.75 percent) and inflation (16 percent) is only 2.75 percent, which is lower than in almost every other industrialized nation.

For the general public, however, as well as for both industry and labor, Italian banks are seen as providing inefficient service while charging high interest rates and taking in large profits. Italian banks clearly have an image problem.

Film: Waiting for the Next Revival?

(Continued From Page 7S)

ment of special effects and technical reproduction of films at a three-day convention earlier this month involving the Italian film association (AGIS), the national cinema-

tographic and audiovisual association (ANICA) and the national association of theater owners (ANEC). ANEC recently took the step of creating a new company called "Politalia" for the sole purpose of improving sound and production quality.

As for the "crisis" in the cinema industry, convention delegates were quick to point to external factors. "The decline is a consequence of a flashy and ferocious anti-cinema campaign conducted by the television industry," said Franco Bruno, president of AGIS. Italy is still the only major industrialized country not having a law requiring that a certain minimum percentage

of the films shown on private television be domestic productions, and the convention pledged to work for such "protectionist" legislation.

RAI, which telecasts on three different channels and which shows a high percentage of Italian-made movies, is fast losing audiences to the dozens of private television channels that flood the Italian airwaves, many of them illegal and many of which seem to show nothing but American movies from the 1930s and 1940s. Another booming business is the pirating of video cassettes, an industry that, according to some sources, now has an annual turnover of as much as \$700 million.

Election, Economic Hope

(Continued From Page 8S)

mass union rally. Critics of Fanfani-led economic policy said the *scala mobile* was only the tip of an iceberg. Employment, for example, is probably still falling, an unpleasant truth underlined by Fiat's decision late last month to reduce scheduled about 17,000 employees who have been on state-subsidized layoffs since 1980.

Unemployment is currently registered at 9.2 percent, according to Italian government figures, but state and European Community economists believe the true figure is closer to 11, even taking into account the huge submerged economy.

Another major headache is the balance of payments deficit that has been sidestepped repeatedly by

piling up foreign debt. Also crucial are the difficulties many large Italian concerns find in competing in today's markets as undermined recently by an acrimonious dispute with the European Community over steel production quotas.

Despite those failings, many of the actors on the Milan bourse and other key Italian markets ask whether a weak center-left coalition could do better than its predecessor.

Among the front-line runners for the premiership, Socialist leader Bettino Craxi is felt by some to be too close to union interests, although others say that a man with such a strong ambition to lead a government should be given a chance to do so in return for fewer Socialist seats in the cabinet.

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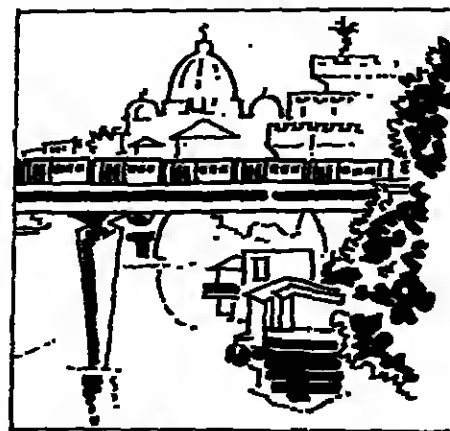
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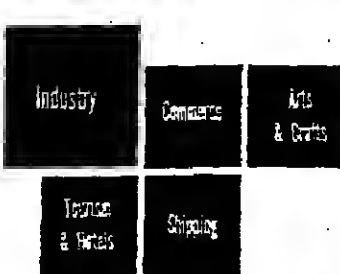


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ITALY

Recession Reaches Motorcycle Sector

ROME — Recession at home and fierce Japanese competition abroad have dealt heavy blows to the once thriving Italian motorcycle industry, causing a dramatic drop in output and profits in the last two years.

Aided by a favorable climate and sympathetic governments that erected a virtually impenetrable barrier of protectionist measures around the home market, the two-wheeled vehicle business was until recently still one of the most prosperous in Italy.

Enthusiasm for the country's stylishly designed scooters, mopeds and superbikes spread to foreign markets and in 1981 more than 70 concerns contributed about \$150 million in much-needed foreign exchange for the balance of payments.

Even the 1973 oil crisis, causing a heavy contraction in auto sales even among speed-loving Italians, seemed to work in the motorcycle producers' favor as consumers were forced to look for ways to reduce fuel bills.

The state encouraged that attitude, going to the length of placing advertisements in subways and other public places in order to boost motorcycle sales and reduce the oil-import burden.

That policy contrasted strikingly with government policy in Britain and other major European markets where the state tended to encourage people to travel in cars because of a high number of motorcycle-related accidents and differing industrial policies.

But despite that assistance, producers agree that for the moment at least their run of good luck has come to an end. Nowhere is the turnaround more clear than in the change of fortunes suffered by Piaggio, Italy's leading scooter, moped and three-wheeler manufacturer. The Genoa-based concern's profits last year fell from 20.1 billion lire to 728 million lire in 1982 after setting aside 57 billion lire for depreciation and other provisions. Turnover improved only marginally, reaching 628 billion lire last year, against 626 billion lire in the previous year.

Output was down 16 percent to 768,000 in 1982, compared to the more than 900,000 vehicles produced by Piaggio in the preceding year. Exports fell to 37 percent of total production from 41 percent in 1981.

Executives attributed the setback to flagging home demand and the impact of Italy's sky-high inflation on operating margins. They added that they were pessimistic about future prospects.

Despite a major investment program that saw an injection of about 80 billion lire in product and manufacturing operation improvements, the company has had to place 3,000 of its 12,000 employees on state-subsidized layoffs.

Motorcycle dealers say the only section of Piaggio's home market that has been relatively cushioned from the overall drop in spending is the sale of 50cc, or smaller, engine mopeds.

In overseas sales, Piaggio and the Italian industry as a whole are known to have been badly hurt by the flattening out of the U.S. market. Italian exporters say a secondary effect of that contraction was that the big Japanese producers suddenly found themselves with vast quantities of surplus machines.

The Japanese quite simply dumped their excess output on European and other world markets, selling at competitive prices that their Italian rivals, without the same capacity for mass production, were mostly unable to match.

Even U.S. companies such as Harley Davidson found themselves in serious trouble. Some Italian companies found themselves being supplanted in foreign markets of the Third World by up-and-coming local companies that discovered they could easily copy the simple technology of many motorcycle engines.

In India, for example, Piaggio's scooter manufacturer Vespa found itself embroiled in a legal battle with a local company called Raja with which it had previously had a licensing agreement. Italian experts say Raja recently refused to renew the agreement, deciding instead to produce similar scooters on its own without paying Piaggio a cent, thus knocking the Italians out of a huge section of their Far Eastern market.

Piaggio has appointed a former senior executive with Olivetti, Vittorio Levi, as managing director, in an attempt to resolve some of its current problems.

Moto Guzzi and Benelli, the two giants owned by expatriate Argentine businessman Alejandro de Tomasso, are also said to be feeling the recession at home.

— JOHN PHILLIPS

Police Mobilized in National Bid to Stamp Out Organized Crime

ROME — Italian police are leading the fiercest battle ever against organized crime here, believed by authorities to have replaced terrorism as the greatest threat to Italian society.

In recent months, Italian magistrates in the south have stepped up investigations into the illegal activities of the region's criminal underworld and the related bloody gang wars that in the last three years are estimated to have taken more than 1,000 lives.

Last month, investigators in the Naples area ordered a police sweep that in 24 hours netted 454 suspected members of the Camorra, as the local criminal underworld is called. The total number of arrests resulting from that inquiry has so far reached about 600. In Palermo, too, magistrates are trying to prove the Sicilian Mafia's ties to the international heroin trade and with it its grip on the Sicilian and Italian economies.

Although terrorism has not disappeared from Italy — as was demonstrated by the murder by terrorists on June 26 of Bruno Caccia, a Turin district attorney — it has declined sharply over the last year and a half.

Interior Minister Virginio Rognoni, a Christian Democrat, attributed the decline of the Red Brigades and other leftist terrorist groups to the combination of increasingly effective police methods, a change in the Italian political and cultural climate and the arrests of several leading terrorists following the police rescue of U.S. Brigadier General James L. Dozier in January 1982.

With the decline of political violence — there have been only two political murders by terrorists so far this year — Italy's police and carabinieri have shifted their attention increasingly to organized crime.

This first became evident in June 1982, when

Carlo Alberto dalla Chiesa, a carabinieri general who for years had been the leading figure in the fight against terrorism, was transferred to Palermo to head the battle against the Mafia. Three months later he and his wife were murdered in a Mafia ambush.

"At this point the Mafia is more dangerous than terrorism," said Giovanni Falcone, a bearded Palermo magistrate who has been working full-time on anti-Mafia investigations since 1980 and who nowadays goes nowhere without a heavily armed police escort.

In the first place, Mr. Falcone said, the Mafia has deeper social and cultural roots than terrorism and is more insidious since it works through exploiting the system rather than trying to destroy it. Secondly, he said, unlike the United States where crime profits are generally reinvested in illegal or semi-legal activities like gambling, in Italy illicit earnings from heroin smuggling are being increasingly poured into legitimate businesses with a consequent distortion of the economy.

Once a rural-based Sicilian hierarchy run by respected local "dons" who gave tradition and complex codes of honor the same importance as power and wealth, today's Mafia has become a multimillion-dollar international business based on a massive heroin smuggling industry said to bring profits — the so-called "narcotics" — of close to \$1 billion a year.

Experts believe that Sicily's geographical position in the Mediterranean, the Mafia's long experience in cigarette smuggling and its base solidity as an organization — despite a current two-year wave of gangland violence — explain its current role in international narcotics smuggling.

The fact is that since 1977 when a crackdown by French and American police successfully closed

down the "French connection," Palermo has replaced Marseille as the central refining and distribution center for Western narcotics. The Mafia's new-found enormous wealth has given it worrisome ties to the world of legitimate Italian finance. Mr. Falcone said, a development that contrasts with old assumptions that the "feudal" Mafia of the past with its charismatic leaders and strictly observed territorial fiefdoms was a symptom of Sicilian economic underdevelopment and in time would disappear.

Instead, investigators say, the Mafia left the countryside and, prospering through rackets, kidnappings and eventually drugs, installed itself successfully first in Sicily's cities and later in other parts of Italy.

Although the Naples-based Camorra, with its complex membership rituals, goes back more than a century, Italian police in the area believe that the astonishing rise to power and predominance of the jailed Camorra leader Raffaele Cutolo — once one of scores of minor cigarette smugglers in the area — can be attributed to his "appointments" several years ago by the Mafia. Mr. Cutolo, known variously as *O Sonamo*, the highest one, *O Zio*, the uncle, or *O Vangelio*, the gospel, is opposed by other bosses in the area who have now regrouped in a loose alliance called the "new family."

However, since the earthquake of November 1980, with its shattering effects on the local economy, his "new organized Camorra" has merged salaried members into a giant organization with thousands of "salaried" members, or *compariati*, and enough clout to demand "contributions" from half of the 52,000 shopkeepers and merchants in the Naples province.

The crackdown on Mr. Cutolo's organization that began last month has been traced in the

confessions of several ex-Camorristi, chief among them a former Cutolo lieutenant, 41-year-old Pasquale Barra, known as *O Animale*, the animal.

But according to the Naples prefect, Riccardo Boccia, who in a special report to the interior minister earlier this year described the Camorra as an organization that has set itself up as an alternative to the state, it will be impossible to defeat the Camorra as long as Naples has 140,000 unemployed and the surrounding province a total of 340,000.

With potential informers too frightened by the harsh punishments meted out to those who break the iron rules of *omertà*, or silence, getting at the Mafia has so far proved even more difficult. Today, however, magistrates in both areas are relying increasingly on their new powers to delve into bank statements, company finance sheets and other personal documents of suspected Mafiosi in an attempt to get at them by pinpointing the illegal sources of wealth.

But because the Mafia's long-standing practice of corruption, courtship and, when necessary, blackmail has given the criminal underworld strong ties to at least local political and economic notables, it is not going to be easy. "It will be a very long struggle for us," said Mr. Rognoni, who noted that the Mafia's traditional role as a parallel institution in rural Sicilian society makes it harder than terrorism to isolate in the eyes of public opinion.

Others blame the dominant Christian Democrats, Italy's largest party, who since World War II have viewed Sicily as a prime reservoir of votes. With the Mafia being seen as an anti-communist bulwark, the tendency was to allow it to operate and now it has gotten too big in control, the critics say.

— SARI GILBERT

Palermo's New Mayor, a Woman, Faces Challenging Urban Problems

PALERMO — On the surface, the recent election of a woman mayor in Palermo, the capital of Sicily, appeared to be an unexpected move by the local Christian Democratic Party in the name of change and progress.

The election last April of Elda Pucci was greeted by excited headlines in both the Italian and foreign press. A respected pediatrician and hospital administrator with a gentle but firm manner, Dr. Pucci almost overnight — and apparently much to her own surprise — became the first woman mayor of any major Italian city.

But, however pleasing in principle her election is to Italian feminists, the chances for real change under Dr. Pucci are limited. Moreover, progressives are concerned about the ongoing economic and social deterioration of the Sicilian city that investigators now believe the Mafia has made into a major heroin-smuggling center.

The most cynical in Palermo see her designation by the dominant Christian Democrats — the city's most powerful party, which has controlled the local government for the last three decades — primarily as a calculated "look how we've changed" operation by the party that also served to at least temporarily paper over its own sharp internal differences.

Some, who give credence to Dr. Pucci's avowed intentions to deal with some of Palermo's trickiest problems — she has promised to look at housing and

unemployment, to close the city center to traffic and decentralize cultural and sports activities — are concerned that her weak position as an obvious compromise candidate will work against her pledge to "run things my own way."

Still others, made wary by the mayor's own low-key assessments of the city's ills and their causes, believe Dr. Pucci is not much more of a mover and shaker than the long list of her disappointing predecessors. With 43 percent of the vote in the province of Palermo, critics said, the Christian Democrats see no real need for change in the area and would be loathe to rock the boat.

Years of neglect by local authorities and the central government have caused law and order on the island to deteriorate to the point where gangland wars take as many as 300 lives a year in the Palermo area alone.

In addition, economic and social conditions in Palermo are alarming. Although sixth among Italy's cities in terms of consumption, Palermo with 700,000 inhabitants has more than 50,000 unemployed and ranks 72d in terms of income production. Failure to act has left the city with water supplies that are so inadequate that last fall Prefect Emanuele de Francesco, Mr. Dalla Chiesa's successor, ordered all private wells in the city taken over by the government.

The city has poor transportation and sanitation facilities, a lack of public schools, a dearth of park and recreation areas, and a downtown area that has deter-

iorated to a degree that some say is unprecedented in the developed West.

By day, the *marina*, a sprawling central market that closely resembles a North African souk, is bustling and alive as vendors jostle each other and buyers.

By night, the same area is deserted, with building after building abandoned to an assortment of stray cats and scurrying mice. The results of years of city housing policies that encouraged profitable private construction in ugly suburban areas rather than inner city renovation, are easily visible. Thirty years ago, 125,000 people lived in Palermo's historic center, with 216 hectares the largest in Italy. Today, only 38,000 people live there, one-fourth in houses believed to be unsafe.

And yet, insisted the mayor — although she admitted that Sicily has been hurt by the absence of a "bureaucratic tradition, an entrepreneurial spirit, also in the public administration" — the problems of Palermo "are those of any large modern metropolis." Furthermore, she said: "The Mafia is not a problem limited to Palermo. It may have been born here, historically, but it has spread so that organized crime is as much a feature of life in northern cities like Milan as it is here."

The new mayor, who is unmarried and lives with her 82-year-old mother in an elegant downtown high-rise, is offended by the notion that all Sicilians are *mafiosi*, and she said that most *palermitani* are decent, law-abiding citizens.

Others, however, said that the Mafia had gone unchecked for so long that it now lives in symbiosis with the city. "The Mafia touches the lives of everyone; you shake hands with someone, even someone you would never suspect, and you just never know," said Father Vincenzo Noto, a priest who works closely with the city's outspoken anti-Mafia archbishop, Cardinal Salvatore Pappalardo.

"The fact is that the Mafia is so deeply involved in Palermo that it has become a major support of the local economy," said a veteran Palermo newsmen. He said that the degree of social control exercised by the Mafia can be seen by a comparison with Naples. "They are both economically disadvantaged cities, but whereas Naples periodically explodes, Palermo never does," he pointed out.

Interestingly enough, with Sicily's reputation for machismo, no one seems to have objected to Dr. Pucci on the ground that she is a woman. The mayor herself said her experience both in local politics and medicine — she is chief pediatrician at the city's children's hospital — had shown her that gender is not a problem.

"Here, as elsewhere in Italy, most people are very concrete and are quick to recognize it when a woman is good at her job," she said. "Some of the images of both men and women in Sicily have become outdated."

— SARI GILBERT

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We took over 110 branches mainly located in the prosperous cities of North and Central Italy. By the end of the year our restructuring programme will result in 9 new branches being opened. All in important locations.

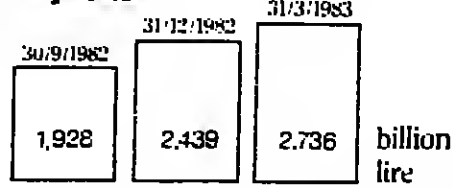
Our subsidiaries:

We control two other commercial banks: Banca Cattolica del Veneto, with its 192 branches located mainly in the Veneto region; Credito Varesino with its 61 branches mainly in the Varese, Como and Milan areas. Based in Milan, we also have our financial and investment company, "La Centrale" Finanziaria Generale.

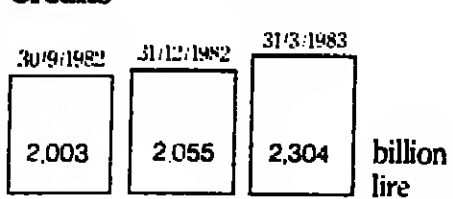
Our Capital Increase:

We will have an increase in capital of a further 150 billion lire under a warrant scheme, approved at our last Extraordinary General Meeting. As a result, our capital will be the highest of any bank in Italy.

Deposits



Credits



NUOVO BANCO AMBROSIANO
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MONDAY, JULY 18, 1983

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EUROBONDS

By CARL GEWIRTZ

BIS Warning on Brazil Repayment Sends a Shiver Through Markets

PARIS — Financial markets were mesmerized last week by the high-stakes poker game being played in Basel and Washington. In Basel, the Bank for International Settlements, which has repeatedly made it clear that no major country debtor or commercial bank leader would be allowed to go bust and bring down the international financial system, suddenly warned that it would not roll over for a third time a \$400-million loan to Brazil.

The BIS bluff worked and by week's end, with President João Baptista Figueiredo of Brazil beginning an up to two-month recuperation from open-heart surgery performed in Cleveland Friday, Brazil and the International Monetary Fund were saying that they had broken their long deadlocked talks on the austerity measures that Brazil would impose to fulfill earlier pledges made to the IMF. Noncompliance with those earlier targets had caused the IMF to block any further loans to Brazil, making it impossible for Brazil to repay the BIS on schedule.

With the formal signing of the agreement expected this week, the BIS announced that its overdue loan, while not formally rolled over, was being extended. Whereas previous extensions were for a fixed period, there is no time limit on the latest renewal, although obviously the BIS expects to be repaid as soon as the long delayed \$411-million portion of the IMF loan is disbursed.

The aim of the BIS was to prevent Mr. Figueiredo's scheduled surgery and long convalescence from being used as an excuse to further delay an accord with the IMF. At the same time, however, the BIS warning sent a shiver of fear through financial markets — expressed as a sharp rise in the value of the dollar and the price of gold.

Dollar Gets Another Boost

The dollar, buoyed by a tightening in U.S. interest rates, got a further boost from news reports from Washington that a rise in the Federal Reserve's discount rate, currently 8 1/2 percent, was imminent.

This news leak also appeared to be a bluff. The Fed chairman, Paul A. Volcker, testifying at his reconfirmation hearings last week, told senators to expect nothing dramatic from the June meeting of the policy-making Federal Open Market Committee meeting. He did allow, however, that the Fed was being less accommodating to the increases in money-supply growth than it had been.

This left observers wondering whether the leaks about the discount rate were aimed at placating congressional critics of Fed policy — only money-market rates are rising, not the discount rate — or whether they were aimed at preparing public opinion for an increase but at a later date.

One theory going the rounds was that the Fed would hold the discount rate steady as short-term rates move up and thereby encourage commercial banks to make greater use of the cheaper discount facility. According to this theory, after several weeks of very large discount borrowings by banks, the Fed will then say it was forced to hike the rate to temper the pace of loan demand.

In the expectation that the robust U.S. economic recovery and sharply increasing measures of money supply will force the Fed to tighten further, the dollar soared on the foreign-exchange market. It hit through the psychological barrier of 2.38 Deutsche marks to touch 2.60 DM last week. The short-term dollar interest continued to firm, with overnight dollar interest touching 9 1/2 percent.

Benefit of Investors

Against this background, the Eurobond market was bereft of investors. In the dollar sector, the only new issue was a \$100-million swap by Mitsui Finance. Its seven-year bonds were priced at par bearing a coupon of 12 1/2 percent but were quoted on a when-issued basis at a discount of 1 1/2 to 2 percentage points.

Critics observed that the coupon offered was not wildly out of line with prevailing yields, but that there were simply no buyers of dollar paper at present.

The swap, it was learned, will provide Mitsui with seven-year money at one-sixteenth of a point below the London interbank offered rate — the basic lending charge for the majority of syndicated bank loans. What could not be learned is why Mitsui would insist on marketing paper that risks leaving a bad taste with the market for such a slim gain in its floating-rate cost of funds.

In the DM sector, where the month-long calendar dictates timing, three new issues were marketed last week but none with any great success. (Continued on Page 15, Col. 3)

Eurobond Yields	
For Week Ended July 13	
10% Inst. 12 term U.S.	12.27 %
10% Inst. 12 term U.S.	12.24 %
10% Inst. 12 term U.S.	12.07 %
10% Inst. 12 term U.S.	12.05 %
10% Inst. 12 term U.S.	12.05 %
10% Inst. 12 term U.S.	12.05 %
10% Inst. 12 term U.S.	12.05 %
10% Inst. 12 term U.S.	12.05 %
10% Inst. 12 term U.S.	12.05 %
10% Inst. 12 term U.S.	12.05 %

Market Turnover	
For Week Ended July 15	
(Millions of U.S. Dollars)	
Cash	7,539.40
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0
Forward	8,911.0



M-20 personal computers being tested at Olivetti's factory in Scarmagno, near company headquarters at Ivrea.

Olivetti Plans U.S., European Expansion

By Axel Krause

International Herald Tribune

IVREA, Italy — Before going off on vacation this month, top executives of Olivetti, Western Europe's largest maker of electronic office equipment, have been putting finishing touches on major expansion moves planned for the United States and Western Europe, notably in France.

The moves in the United States, the most ambitious in the Italian company's history, include starting a \$100-million offshore-capital-venture fund in New York in September.

Olivetti also plans to list its stock on the New York Stock Exchange, probably by next June, and during the past several weeks it has been studying proposals for the listing made by leading U.S. investment banks, including Lehman Brothers, Kuhn Loeb and Morgan Stanley.

"It looks as if we are going to have a very exciting and busy autumn," said Eusebio Pini, director of corporate strategy, who will help manage the venture fund — the latest in a series of moves by Olivetti to tap U.S. technological, financial and managerial resources.

Meanwhile, Carlo de Benedetti, vice chairman and chief executive officer, is waiting for a response from the French government on Mr. de Benedetti's demand that France reduce its 32-percent shareholding in Olivetti to 10 percent as a condition for new expansion in France by Olivetti.

The stake, the largest in Olivetti, was acquired by the French Socialist government last year when it nationalized the Saint Gobain industrial group, which had wanted to merge its electronics business with Olivetti's. Saint Gobain had bought the 32 percent interest in Olivetti three years ago. Mr. de Benedetti has offered to buy back the shares.

Olivetti and CIT-Alcatel, a subsidiary of another nationalized French company, Compagnie Generale d'Electricite, recently initiated an agreement to jointly develop and produce at least 100,000 new-generation electronic typewriters a year at a plant in France, but Olivetti says it will not proceed with the deal until the shareholding issue is resolved.

This venture with CIT-Alcatel, suggested by the French, could be very significant for us and for France, one of our largest markets," Mr. de Benedetti said in a recent interview at Olivetti's headquarters in Ivrea. The Frenchman said, "They have all the elements and we have laid out all our arguments, including that our original agreement with Saint Gobain stipulated cooperation. It is up to them to decide."

In Paris, a high-ranking government official involved in drafting a final recommendation said the Olivetti proposals involved financial considerations — including the purchase of the shares and the building of the new plant — that he described as "very, very complex." But he strongly hinted that an agreement could be completed by the end of this month.

A senior CIT-Alcatel executive said that, during their negotiations, the two companies had hit upon other possible projects for future cooperation in development of information technology, including telecommunications.

Olivetti's moves on both sides of the Atlantic reflect a broad strategy by Mr. de Benedetti to strengthen the company's position in Western Europe and to meet the growing, intense competition from International Business Machines of the United States, West Germany's Nixdorf, Philips of the Netherlands, Sweden's Ericsson and the large Japanese companies that are rapidly expanding in the field. The work of the

Japanese companies, including Hitachi, is being coordinated by the Ministry of International Trade and Industry.

By 1990, the value of the office-automation market in industrialized countries is expected to more than double, to about \$100 billion, according to the European Community Commission. This would make it the largest single market for information technology in the West — three times larger than the market for automation of plants and manufacturing processes.

"This is not simply mechanizing white-collar jobs, like typing, but far-reaching automation of major sectors of the Western economies, such as banking and all the services that go with it," an EC official in Brussels said. He added that community planners were impressed that Olivetti, unlike some of its European competitors, generated about a third of its sales outside Europe, notably in North and Latin America.

"In office automation, we already are No. 1 in Europe — and profitable — but our goal is to become a global competitor in this business," said Mr. de Benedetti, who, after the French, is the largest single shareholder in Olivetti, with a 17-percent interest that he acquired when he joined the company in 1978.

Observers generally agree that, since taking over, Mr. de Benedetti has organized one of the most impressive turnarounds in recent European business history: Consolidated sales roughly doubled in the past five years, reaching a record 3.3 trillion lire (\$2.2 billion) last year, and with 25 percent fewer workers than there were five years ago. Mostly, the volume came from selling machinery and equipment for data-processing, office-automation and other office products, such as manual portable typewriters, furniture and copiers.

Although the company had heavy losses in Mexico last year, net consolidated income rose slightly to 102.8 billion lire, representing about 3 percent of sales. Mr. de Benedetti says he intends to boost that proportion to 5 percent of sales by the end of next year, while continuing to spend heavily on research and development of new products and processes, including those that will be compatible with the new fifth-generation computers that are expected to be on the market in the late 1980s.

"De Benedetti has done a spectacular job since taking over, and clearly Olivetti is perceived over here as a major power in its field in Europe," said a senior New York-based executive of Lehman Brothers Kuhn Loeb. He quickly added, however, echoing the views of others in the U.S. investment community, "He may have done well in Europe, but it is not exactly the same as doing well here, although he has certainly gotten off to an impressive start."

Mr. de Benedetti has never hidden his fascination with and deep affection for the United States, which he visits frequently, sometimes accompanied by his wife (who lives in Switzerland) as protection against possible terrorist attacks. "A European solution without an American link is no solution," he said, "but for this to succeed, you need to be strong in Europe first."

His forging of that link began about two years ago, when Olivetti started buying substantial interests in 21 U.S. high-technology companies, mostly in data processing. The investments were increased by \$14.5 million last year and now total about \$120 million. "We needed a window in the U.S. which would not prove too expensive, while also giving us access to marketing experience and research and development in fields that interested us — we are not in Silicon Valley here," said Mr. Pini, the

(Continued on Page 17, Col. 5)

Chrysler Considers Making Small Car With VW in U.S.

The Associated Press

DETROIT — Chrysler Corp.'s chairman, Lee A. Iacocca, said that talks between his company and West German automaker Volkswagenwerk may result in joint production of a small car in the United States.

Mr. Iacocca said that he had met two or three times with the VW chairman, Carl Hahn, recently for preliminary discussions on how to work together in the U.S. small-car market.

Chrysler is planning to replace its Dodge Omni and Plymouth Horizon with a vehicle it calls the P-car by 1986, while VW plans to introduce a redesigned Rabbit in the 1985 model year.

Mr. Iacocca also said he wants to "explore every possibility" with VW, perhaps using VW's plant in Westmoreland, Pennsylvania, for some type of small-car venture.

"That might be something we would explore," Mr. Iacocca told the Detroit Free Press, according to an article in Friday's edition. Mr. Iacocca's comments were made in a Washington interview Wednesday.

VW has been "a good partner in the past," Mr. Iacocca said, adding that he would like to see ties strengthened between the companies. VW supplied engines for the Omni and Horizon when they were



Lee A. Iacocca

first introduced in 1977 and through the 1983 model year.

Mr. Iacocca said that he had met two or three times with the VW chairman, Carl Hahn, recently for preliminary discussions on how to work together in the U.S. small-car market.

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OPEC Expected to Freeze Output and Price at Meeting

Compiled by Our Staff From Dispatches

HELSINKI — OPEC ministers are likely to freeze prices and output at their present levels, Oil Minister Dr. Subroto of Indonesia said Sunday. Ministers of the Organization of Petroleum Exporting Countries are holding their regular semi-annual meeting here this week, starting Monday.

Asked whether he anticipated any change in the OPEC accord that the 13 member states reached in March, Dr. Subroto said: "The feeling is no — we keep prices and production where they are." The March accord set an OPEC benchmark price of \$29 a barrel.

Meanwhile, Petroleum Intelligence Weekly reported in its Monday issue that OPEC nations have increased oil production almost to the cartel's 17.5-million-barrel-a-day limit.

The oil industry newsletter said that OPEC crude-oil production has been well above 17 million barrels a day so far in July.

The production ceiling was instituted last March to stabilize prices, with Saudi Arabia agreeing to serve as the "swing" producer, raising or lowering output to keep the market stable.

Many OPEC members are now nearing their allotted production ceilings, the newsletter said, and

Saudi Arabia has begun to turn away some buyers.

OPEC's output rose 1.6 million barrels a day in May to an average 16.8 million for the month, and was about 17 million barrels a day in June, the weekly estimated.

Despite the general air of optimism among delegates at Helsinki, Dr. Subroto acknowledged that two issues could cause problems at the two-day ministerial session — the question of Nigerian overproduction and the choice of a new secretary-general for the organization.

In recent months Nigeria's output has outstripped the 1.35 million barrels a day assigned to it under the London accord, raising the prospect that other members could press for a Nigerian price rise to dampen demand for its high-quality crude.

The Indonesian minister told reporters the choice of a new secretary-general to take over from Marc Nguma of Gabon could also cause problems.

Iran has nominated the head of its national oil company, Mohammad Hassan Kheradmand, to take over the post under a rotation system. But Iraq, at war with Iran for almost three years, has put forward rival candidate Ramzi Salman.

Credit Markets Respond Well to Rise in U.S. Money Supply

By Robert A. Bennett

New York Times Service

NEW YORK — U.S. credit markets have responded well to the most recent indication of a rapidly rising money supply.

M-1, the narrowest measure of the money supply, rose \$5.8 billion in the week ended July 6, according to the Fed.

U.S. CREDIT MARKETS

to the Federal Reserve Board. The increase was at the high end of the range expected by the financial markets.

The Fed also reported Friday that two broader measures of the money supply rose only moderately during June.

Despite confirmation that the Fed had tightened monetary policy a notch in May and then again in June, the credit markets responded well to Friday's reports. The stock market, however, fell in anticipation of the Fed report. The Dow Jones industrial average slid 12.02 points as investors appeared concerned that interest rates would rise.

In the credit markets, prices of Treasury notes and bonds ended by

recouping most of the steep losses set earlier in the day. The 10% percent bonds due in 2012, which had fallen 1/4 point to an offered price of 90 1/2 early in the afternoon, began rising before the Fed's announcement, and quickly rose another 1/4 point in late trading. By the close, the bellwether Treasury bond was offered at 91 1/4, down only 1/4 point on the day, to yield 11 1/4 percent.

Among short-term securities, interest rates were little changed after the money supply announcement. Six-month Treasury bills, for example, were bid at 9 3/4 percent late in the day, unchanged from early afternoon levels.

Traders said that the rebound in bond prices was largely technical, and caused by the buying of speculators who recently were heavy sellers.

Prices rose after the Fed announcement despite a growing sense that the Fed may continue to tighten monetary policy in small steps and drive up interest rates, analysts said.

Charles Lieberman, a senior economist at Morgan Stanley, said there was evidence in the markets Friday that the Fed had already tightened a bit further. He said the

U.S. CONSUMER RATES

For Week Ended July 15

Postoffice Savings	5.50 %
6-Month Savings Certificate	9.51 %
1-Year Savings Certificate	9.54 %
1-Year Treasury Note	8.24 %
1-Year Treasury Bond	8.40 %
1-Year Treasury Inflation Protected Security	12.01 %

rate on federal funds — overnight money that banks buy and sell among themselves — rose slightly, to a range of 9 1/4 percent to 9 1/2 percent, from an average of about 9 1/4 percent last week. Actions taken by the central bank usually are first reflected in the federal funds rate.

There also seemed to be a growing sense in the markets that the Federal Reserve had got a handle on the growth of M-1, the basic money supply, despite its \$5.8-billion rise to \$112 billion. The increase was due largely to early payment of Social Security checks that were on deposit over the long July 4 weekend. M-1 consists of funds that are readily available for spending — currency in circulation and check-like deposits in banks and savings institutions.

"M-1 growth has stabilized," Congiz Israfil, vice president of Morgan Guaranty Trust, said. But because of rapid growth earlier in the year, M-1 remained about \$16.6 billion above the top of the targeted growth range of 4-6 percent.

Mr. Israfil said that M-1's four-week average growth rate had been 31.2 percent on June 1, but that it had dropped to 7.7 percent by the June 29 week, and to only 2.5 percent in the July 6 week. "I expect it to stay below 3 percent," he said.

A broader measure of the money supply, M-2, rose by \$18.1 billion during June, to \$211.52 billion. M-2 includes savings-account balances in banks and savings institutions, balances held by individuals in money-market mutual funds and overnight borrowings by banks from corporations and from banks overseas.

The Fed's range for annual growth in M-2 is 7-10 percent. The June figure was \$3.3 billion below the upper limit, although its annual rate of growth during the month was 13.4 percent, higher than the annual target.

M-3, a still broader measure of the money supply, rose \$21.4 billion, to \$249.9 billion. It consists of M-2 plus large time deposits, longer-term borrowings from corporations and corporate balances in money-market mutual funds.

The annual growth rate for M-3 is 6 1/2 percent to 9 1/2 percent. During June, it grew at an annual rate of 9.8 percent and ended the month \$12 billion above the top of the target, considered an insignificant deviation.

Notice
A/S Eksportfinans
(Forretningsbankenes Finansierings- og Eksportkreditinstitutt)
Oslo, Kingdom of Norway

U.S. \$ 100,000,000
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1. The payment of said final installment is due and payable not later than August 1, 1983 in U.S. dollars in same day funds;

2. The Borrower reserves the right to accept payment of the said final installment in respect of any Bond at any time after August 1, 1983, subject to payment of interest on such final installment at the rate of 12% per annum, calculated from (and including) August 1, 1983 to (but excluding) the date of payment thereof, on the basis of the actual number of days elapsed divided by 360. Any payment of the said final installment accepted after the due date shall be treated as having been made on the due date.

3. The Borrower may at any time after August 15, 1983 elect (without giving published notice) to forefeit all or any of the partly paid Bonds and all rights arising therefrom, to the extent that the said final installment in respect of such Bonds together with interest as aforesaid has not been duly paid, whereupon the Borrower shall be entitled to retain the final installment on such Bonds and shall be discharged from any obligation to repay such installment, or to pay interest thereon for any period. Arrangements should be made, through depository banks, if necessary, with the European Operations Centre, 35, Avenue des Arts, Brussels, or CEDEX 3, A-1180 Grand-Place, Luxembourg, in order to ensure prompt payment of the said final installment to the Borrower.

By: A/S Eksportfinans
(Forretningsbankenes Finansierings- og Eksportkreditinstitutt)

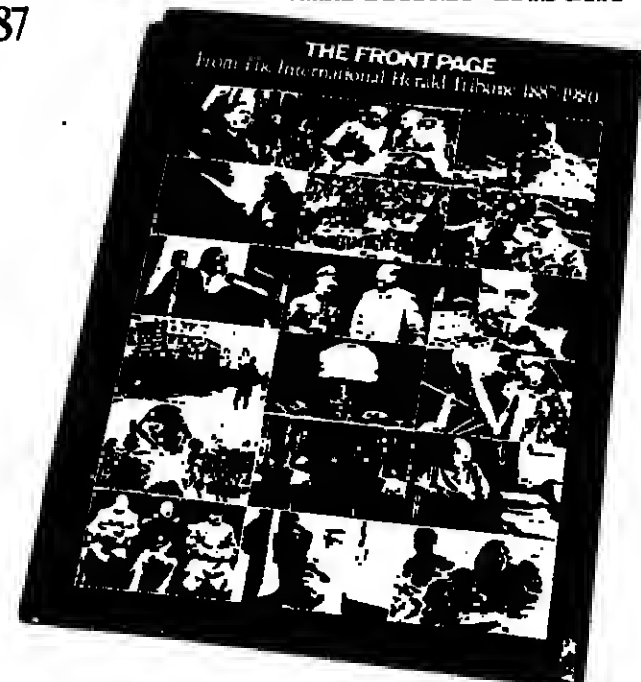
Dated: July 18, 1983

THE FRONT PAGE

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BUSINESS BRIEFS

Saudi Companies Reportedly Need Loans for \$2 Billion in Next 2 Years

LONDON (UPI) — Heavy industries and refining companies in Saudi Arabia will seek at least \$2 billion in long-term loans from Arab financial sources during the next two years because of shrinking oil revenues, according to the London-based magazine Arab Banking and Finance.

"There are now signs that government support is no longer available and the capital market will have to play a role in all aspects of future development," the magazine reported Friday in its July issue.

It said that, while there was no evidence that "the slump in Saudi oil revenues in the first half of 1983 has significantly affected banks' assessment of the projects' creditworthiness," Saudi institutions were trying to raise most of the funds in the Arab, preferably Saudi, financial markets instead of going abroad.

TWA Reports \$16.2-Million Deficit

NEW YORK (NYT) — Trans World Airlines has reported a loss of \$16.2 million for the second quarter, after making a profit of \$25.6 million in the 1982 second quarter.

The decline was much smaller than TWA's \$92.7-million loss for the first quarter this year. The airline's business is highly seasonal, and TWA usually has better results in the second and third quarters, when its international division carries large loads of overseas vacationers.

Revenues fell to \$869.1 million from \$878.2 million a year earlier, the company said Friday. Earlier last week, Eastern Airlines reported a loss of \$33.7 million for the quarter, about half the size of its first-quarter loss. TWA's parent company, Trans World Corp., which has traded separately on the New York Stock Exchange since the first quarter, is expected to report its second-quarter results this week.

Stock Sale Increases Comsat Profits

WASHINGTON (Combined Dispatches) — Communications Satellite Corp. has reported that its profit for the second quarter climbed 49 percent on a 10-percent increase in revenues from last year, largely because of the sale of stock that it had held as an investment.

Comsat said Friday that its earnings rose to \$16.1 million for the quarter that ended June 30, from \$10.8 million in the 1982 quarter. Revenues climbed from \$99.9 million to \$109.9 million. Per-share earnings rose to 89 cents on about 18 million shares from 67 cents on 16 million.

The company sold stock that it had held in Ungermann-Bass Inc., for after-tax income of about \$4.8 million. Comsat said. Otherwise the profit increase would have been 4.6 percent. Comsat reported continuing losses from Satellite Business Systems, its venture with Aetna Life and Casualty Co. and International Business Machines Corp., which have extended their partnership agreement to increase financing of SBS to \$771 million from \$591 million.

Teamsters Discuss New Concessions

WASHINGTON (UPI) — The Teamsters union has acknowledged that it is considering new concessions with the U.S. trucking industry to help win back jobs for unemployed truckers. The move came under immediate attack from a dissident union group.

A Teamsters spokesman said Friday that no concrete proposal had been developed. He was responding to reports that the union and industry were about to reach an agreement that would amend a contract signed in March 1982.

New concessions would be the second set in two years for the Teamsters, the largest U.S. union. Ken Paff, organizer for the dissident Teamsters for a Democratic Union, charged that the talks meant "a field day for the employers to manipulate the contract."

Reynolds Metal Has \$69-Million Loss

RICHMOND, Virginia (Reuters) — Reynolds Metals Co. has reported a \$69.1-million loss in the second quarter after profits of \$25.5 million in the 1982 quarter.

The company said Friday that it had charged \$52.7 million to its second quarter to cover the cost of closing loss-making plants. Without the charge, the second-quarter loss was significantly less than the decline of \$52.4 million that Reynolds had reported for the first quarter.

Electricity Rise Worries Grumman

NEW YORK (NYT) — Grumman Corp., the largest employer on Long Island, has postponed some expansion plans because of its concern about the effect of Long Island Lighting Co.'s proposed electric-rate increases of 50 percent.

Grumman has said it might transfer some employees to other plants if the state approved a substantial portion of the utility's request, which would pay for an almost-completed nuclear-power plant.

Rescheduling Work Curbs Market

By Carl Gewirtz
International Herald Tribune

PARIS — With bankers trying desperately to complete the rescheduling of 1982-83 debt arrangements before work begins later this year on renegotiating the debt due in 1984, there is little in the way of new business coming to the syndicated-loan market.

Greece completed the first leg of the \$200-million loan for OTE, the state telecommunications agency, by borrowing 10 billion yen (\$62.5 million) from a syndicate of 15 Japanese banks and insurance companies. The eight-year loan carries a floating rate of interest set at 0.1

percentage point above the prime lending rate of Japanese banks, currently 8.4 percent.

Terms on the companion \$160-million financing, expected to be a

SYNDICATED LOANS

split ½-½ point over Libor, or ½ point over the prime rate, will be announced Monday.

Irish Telecommunications, also state-owned, is in the market for \$75 million to finance a new telephone network. It is paying an evenly split ½-½ point over the London interbank offered rate for its eight-year loan, plus a commitment fee of ½ percent.

EDF, Portugal's electricity agency, is raising \$50 million for seven years. Interest will be set at one point over Libor. Front-end fees total ¼ percent.

In Eastern Europe, Hungary has mandated Arab Banking Corp. to put together a \$200-million, eight-year loan.

Elsewhere, the Australian Wheat Board is raising the equivalent of \$100 million. Half of this is in the form of a sterling acceptance, running for a minimum of two years, with lenders paid an annual ¼ percent acceptance commission. The remaining \$50 million will be in the form of two-year Euronotes rolled over every three months.

NEW EUROBOND ISSUES

Borrower	Amount (millions)	Maturity	Coupon %	Price	Yield At Offer	Terms
Europ. Coal & Steel Com.	DM 160	1990	8	100	8	Noncallable.
IADB	DM 150	1993	8 1/4	99 1/2	8.33	Noncallable.
Sumitomo Finance	DM 100	1991	8	100	8	Noncallable.
Norcan Energy Resources	cs 60	1993	12 1/4	99 1/2	12.89	Noncallable.
Xerox Canada	cs 40	1988	12	100	12	Noncallable.
Europ. Coal & Steel Com.	DM 160	1990	8	100	8	Noncallable.

BIS Warning U.S. Banking Deregulation: Some Pros and Cons

By Kenneth B. Noble

(Continued from Page 13)

The European Coal and Steel Community, for example, offered 160 million DM of seven-year bonds at par bearing a coupon of 8 percent, up from the 7 1/4 percent that had been contemplated a week earlier.

The recent issue for Eurofima, as another example, offered at 99 1/2 percent, ended last week at 98 1/4, for a yield of 7.63 percent.

Also on offer are 150 million DM for the Inter-American Development Bank and Sumitomo Finance, but bankers admitted that there was just no demand for DM paper at present.

Two issues denominated in Canadian dollars were marketed last week, with the rationale that as short-term Canadian dollar financing costs are considerably below the coupon offered, underwriters would be willing to sit on the paper. For Xerox Canada, this did not matter much, as the name of the issuer facilitates placement. But little known Norcan Energy Resources did not benefit from either factor and its 12 1/4 percent, 10-year bonds, priced at 99 1/2, were quoted at steep discount of 2 1/2 points — indicating that even the underwriters were not willing to sit with it.

Another deal on which underwriters were making no money was the World Bank's 100-million Eurosterling issue, the largest offering yet made in this sector. Offered at 9 1/2 percent and bearing a coupon of 11 percent, the five-year notes were quoted at a discount of 1 1/4 points.

Netherlands Announces New Cuts in Spending

THE HAGUE — Prime Minister Ruud Lubbers has announced accelerated 1984 budget cuts of 11.8 billion guilders (\$4.06 billion) to help trim the Netherlands' record public-spending deficit.

The cuts, to be submitted for parliamentary approval in September, would reduce by equal amounts the government payroll and social security funding.

New York Times Service

WASHINGTON — It was 50 years ago that Congress erected barriers between commercial banks and other types of financial institutions to protect the banks from the kind of excessive risk-taking that led to wholesale bank failures during the Depression.

In recent years, however, a kind of de facto deregulation of banking has been under way as aggressive managers have tried to expand into new areas.

Congress is now beginning to consider proposals for overhauling banking regulations, but there is disagreement over what is appropriate. Treasury Secretary Donald T. Regan was to testify Monday on behalf of an administration bill that would speed the pace of bank deregulation. But Paul A. Volcker, chairman of the Federal Reserve Board, wants a temporary freeze on all cross-industry acquisitions to give legislators more time to establish policy. The administration, meanwhile, has appointed a task force, headed by Vice President George Bush to review federal regulation of all financial institutions.

What follows is a discussion of existing restrictions and of whether they can safely be modified.

Q. What are the main issues before Congress?

A. The basic issue is how fast change should be allowed to take place, and in what form. Should there be a complete moratorium? Should unregulated change be allowed to continue unfettered? Or should change be pushed even faster, as the administration is seeking.

Q. Why have the barriers started to crumble?

A. The changes in the financial system have been brewing for more than 20 years. They have accelerated of late because of the broader trend toward business deregulation that began in Washington in the 1970s. Although much of that deregulation has been in other areas, some has also occurred in the financial sector, notably in the gradual removal of all interest-rate ceilings, authorized by Congress in 1980.

Equally important, nonbank financial institutions like Shearson-American Express, Prudential-Bache and Sears, Roebuck, that are not subject to the same federal regulation as banks have made successful forays into new financial businesses. All of them, for example, offer their customers financial management accounts, which combine banking and brokerage services.

Q. What prevents banks from also branching into new areas?

A. Basically two laws. The Glass-

Steagall Act of 1933, which bars banks from underwriting corporate securities, and the Bank Holding Company Act of 1956, which limits companies that own banks to activities judged by the Federal Reserve to be "closely related to banking."

Q. Why did Congress impose these restrictions?

A. The prohibitions grew out of concerns that the speculative excesses of the largest banking houses may have set the stage for the 1929 stock-market crash and the ensuing failures of hundreds of banks.

Some banks, in an effort to bail out ailing borrowers, became underwriters of corporate stock of dubious value, thereby shifting the risk to their stockholders and depositors.

Q. What is the moratorium that is being considered?

A. Mr. Volcker has asked Congress to enact legislation temporarily halting all acquisitions of banks and thrift institutions by nonbank companies. The proposal, however, has created considerable apprehension on Wall Street and sharp policy divisions among government regulatory agencies.

The Office of the Comptroller of the Currency, which regulates federally chartered, or national, banks, has already, by administrative fiat, frozen action on new applications by nonbanks to create new national banks. But the Federal Home Loan Bank Board, which supervises savings associations, and the Federal Deposit Insurance Corp. have argued against a congressional moratorium.

Q. Why do the Fed, the other federal banking regulators and the administration differ on the moratorium issue?

A. The Fed has tended to take a more conservative approach to letting banks diversify. It contends that banks are "special" — that bankers work with other people's money, so that they must be more heavily regulated to insure the prudent use of depositors' funds.

Mr. Regan, on the other hand, contends that a moratorium would only postpone the inevitable dismantling of the remaining statutory and regulatory restraints, and he welcomes a faster pace of deregulation. He has noted that many states, unhappy with the slow pace

of deregulation by Congress, are taking their own initiatives. South Dakota, for example, recently authorized banks chartered under its laws to engage in the insurance business.

Q. What is the administration proposal?

A. The administration's bill would free banks to offer a full array of financial services. It is asking Congress to let all banks underwrite municipal revenue bonds, and engage in real estate and insurance brokerage. However, the banks would have to create separate subsidiary corporations to engage in these lines of business. The bill would still prohibit banks from underwriting corporate securities.

Q. Why isn't the administration proposing that banks be allowed to underwrite corporate securities?

A. Mr. Regan has indicated that, in principle, he supports letting banks move into this area. But at this point, he says, it is not politically practical. For one thing, there is strong opposition from underwriters who fear additional competition.

Q. Aren't some bankers already selling securities as discount brokers?

A. Yes. The Fed has approved banks buying discount brokers on the ground that they are not full service brokers; they buy and sell stocks at discount, but give no ad-

vice and make no markets. BankAmerica Corp., for example, the largest U.S. banking organization, recently acquired Charles Schwab & Co., the largest discount securities broker. Other banks have made similar moves by affiliating with an existing discount brokerage firm.

Q. Why not let banks underwrite corporate securities?

A. Some analysts argue that banks are not suitable as corporate underwriters because their main experience is in judging the creditworthiness of borrowers. They are not knowledgeable, critics say, in the intricate business of timing and pricing deals, which securities firms and investment houses routinely do for their corporate clients.

Q. What is the mission of Mr. Bush's task force?

A. Many analysts doubt that the existing patchwork of seven different federal financial regulatory agencies can adequately monitor the evolving banking system. The task force is examining ways to eliminate the frequent jurisdictional disputes, and is expected to issue its report in early fall.

Workers in Guyana End Mining Strike

GEORGETOWN, Guyana — Workers in Guyana's bauxite industry have agreed to end a six-week strike after management pledged to restore a five-day working week.

Kingdom of Sweden U.S. \$150,000,000 Floating Rate Notes Due January 1995

For the six months 14th July 1983 to 16th January 1984 the Notes will carry an interest rate of 10 1/4% per annum with a Coupon Amount of U.S.\$13,885.42.

Bankers Trust Company, London Fiscal Agent

U.S. Steel-Import Curbs A Surprise, Says Bonn

The Associated Press

FRANKFURT — Economics Minister Otto Lamsdorff said in an interview released Sunday that the new U.S. tariffs and quotas on specialty-steel imports were "disappointing" for West Germany.

Mr. Lamsdorff told the Hamburg-based weekly Der Spiegel that the move by President Ronald Reagan "was a particularly disappointing move in light of the recent Williamsburg summit." The restrictions came as a surprise in Bonn, he added.

Der Spiegel said the U.S. tariffs and quotas would mean an average 20-percent tariff increase on West German high-grade-steel sales in the United States.

"I had not expected such a move would be taken so soon after Williamsburg, and for such false reasons," Mr. Lamsdorff said.

Earlier this month, Mr. Reagan announced a combination of tariffs and quotas designed to revive domestic steel companies. Under the four-year program, tariffs will be placed on products that make up 55 percent of the U.S. specialty-steel market.

Mr. Lamsdorff termed the move protectionist and said a possible trade war between the United States and the European Community — at which the restrictions are primarily aimed — could be better avoided by bilateral agreements limiting European steel exports to the United States.

At the Williamsburg summit of industrialized nations, leaders including Mr. Reagan and Chancellor Helmut Kohl agreed to combat protectionist trends fueled by domestic unemployment problems.

SOCIÉTÉ GÉNÉRALE

US \$125,000,000 Floating Rate Notes due 1991 with warrants to purchase US \$125,000,000 11 1/4% Bonds due 1989

For the six months, July 12, 1983 to January 11, 1984 the notes will carry an interest rate of 10 1/4% per annum.

The interest due January 12, 1984 against coupon number 2 will be US \$5,494 and has been computed on the actual number of days elapsed (184) divided by 360.

The Principal Paying Agent

SOCIÉTÉ GÉNÉRALE
ALSACIENNE DE BANQUE
Luxembourg Branch.

U.S. \$175,000,000
National Westminster Finance B.V.
(Incorporated in The Netherlands with limited liability)

Guaranteed Floating Rate Capital Notes 1991

In accordance with the provisions of the Notes, notice is hereby given that for the six months interest period from 18 July, 1983 to 18 January, 1984 the Notes will carry an Interest Rate of 10 1/4% per annum. The interest payable on the relevant interest payment date, 18 January, 1984 against Coupon No. 5 will be U.S. \$276.32.

By The Chase Manhattan Bank, N.A., London Agent Bank

SOLVAY in 1982:

Strict Management has paid off the Consolidated Net Result went up to BF 2,600,000,000 and the Net Dividend to BF 200

Reduction in expenses

Despite the continuing economic crisis, the Solvay Group has managed to achieve a dramatic improvement in its results by concentrating its efforts on both the reduction of its purchases of all kinds and the increase of its market share in the various product areas. As a consequence, whilst turnover continued to increase, the growth of variable costs was considerably slowed down and this has been the determining factor in the improvement of the Group's results. This slow-down in cost increases was achieved for the main part in the fields of energy and petrochemical raw materials. Solvay also made efforts to slow down the increase in its personnel costs, which it managed to reduce by 1,000 million francs compared with the previous year.

Technology improvements and development of the Group's position in the traditional chemical industries

Solvay's various laboratories and industrial plants have brought its production processes to new levels of efficiency, so enabling the group to better withstand competition. The group has a significant position in all the markets in which it is present, and this with more and more high

Increased dividend

The return on Solvay shares for 1982 is 50 francs higher than that of 1981: it amounts to BF 200 per fully paid-up share.

Key Figures

in million of Belgian francs	1982	1981
Turnover	177,784	157,420
Research costs	5,988	5,336
Personnel costs	47,129	42,417
Capital expenditure	7,035	9,194
Group's consolidated net result	2,593	— 752
Solvay & Cie's net result	2,300	1,195
Personnel employed (in units)	45,369	48,237

The Solvay & Cie annual report is obtainable in French, Dutch, English and German on request from the General Manager of Solvay & Cie, Rue du Prince Albert, 33 B - 1050 Brussels.

All these securities having been sold, this announcement appears as a matter of record only.

Den norske Creditbank
(Incorporated in the Kingdom of Norway with limited liability)

DnC

U.S. \$50,000,000

11 1/4 per cent. Capital Notes due 1993

S.C. Warburg & Co. Ltd. Goldman Sachs International Corp.

Algemene Bank Nederland N.V. Bank of Tokyo International Limited Bergen Bank A/S

Christiana Bank og Kreditkasse CIBC Limited Citicorp Capital Markets Group

Credit Lyonnais Den norske Creditbank (Luxembourg) S.A. Deutsche Bank Aktiengesellschaft

Genossenschaftliche Zentralbank AG - Vienna Hambros Bank Limited

E. F. Hutton & Company (London) Limited Kredietbank International Group

Kuwait Investment Company (S.A.K.) Manufacturers Hanover Limited

Merrill Lynch International & Co. Morgan Stanley International Nomura International Limited

Nordic Bank PLC

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WIN & WEINTRAUB & CRAMES
Attorneys for Brucal Industries, Inc., et al.
Creditors and Debtors in Possession
15 Broadway
New York, New York 10007
(212) 962-3300

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